

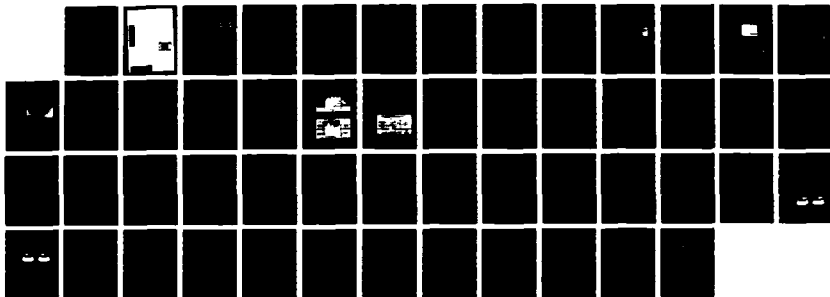
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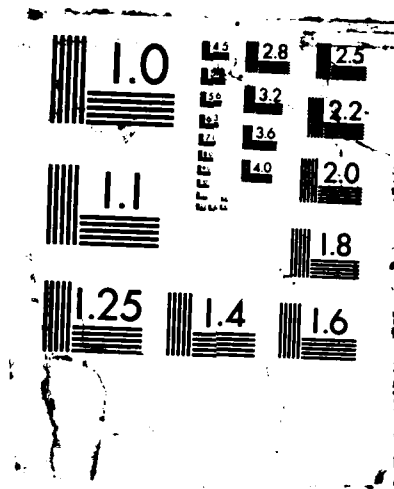
ANNUAL REPORT TO THE CONGRESS FISCAL YEAR 1988 CASPAR M 1/1
WEINBERGER SECRETARY OF DEFENSE EXECUTIVE SUMMARY(U)
DEPARTMENT OF DEFENSE WASHINGTON DC 1988

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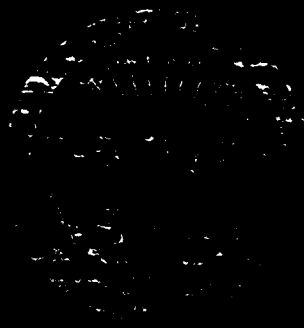
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Annual Report
to the
Congress
FISCAL YEAR 1967



DTIC
ELECTE
MAR 15 1968
S H D

Caspar W. Weinberger
Secretary of Defense

EXECUTIVE SUMMARY

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To the Congress of the United States

DTIC
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MAR 15 1988
S H D

This year we will celebrate the 200th anniversary of our Constitution. Since the Philadelphia Convention completed work on this historic document in 1787, it has guided American democracy and become a model for countless other constitutions. It remains the standard by which freedom-seeking peoples the world over judge the legitimacy of their own governments. Our Constitution is a truly remarkable and enduring document, fully worthy of the praise it won from the great English statesman, William Gladstone, as the "most wonderful work ever struck off at a given time by the brain and purpose of man."

Our Constitution, however, is not so esteemed by some. Since it recognizes that ultimate authority resides with the people themselves, our Constitution challenges tyranny and oppression. Indeed, it is considered a constant threat by those who rule without the consent of the governed. It is because of these hostile regimes that our Constitution charges our federal government to provide "for the common defense" of the American people, our free and democratic way of life, and the ideals for which we stand.

Today, carrying out the responsibilities entrusted to me by the President, I submit to the representatives of the American people, who assemble as the Congress of the United States for the 100th time, the President's plan to provide for the common defense of our nation and of our freedom. I do so fully mindful of our shared responsibility for defending the American people. The President's defense budget is nothing more, and nothing less, than a statement of the resources needed to ensure our security, our peace, and our freedom in the years ahead. It provides a sound foundation for the preservation of our ideals for generations yet to come.

The defense budget now before the Congress requests 3 percent real growth for our defense program in fiscal years (FY) 1988 and 1989. This modest increase over the amount enacted by the Congress for FY 1987 will not recover the ground lost by a 7 percent real decrease in defense spending Congress has imposed in the last two years. However, our budget will regain the momentum of our modernization program, and protect the investments we have already made in our future security.

In recent years, some in the Congress and elsewhere have focused so sharply on reducing the federal deficit that they have mistakenly

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perceived the defense budget primarily as their most favored target for budget cutting. Such thinking fails to comprehend either the real purposes of our defense spending plan, or the size and scope of the threat to our freedom posed by the Soviets' steadily increasing offensive military power.

In every corner of the globe, America's vital interests are threatened by an ever-growing Soviet military threat. Moscow is maintaining its unprecedented pace of military expansion, and continues using military might to support its ruthless goals. In the past decade, the Soviet Union has outstripped us in almost every meaningful category of military production.

Detering the Soviet threat, and the present aggression of terrorism and other low-intensity conflicts, requires our firm and unwavering commitment to sufficient defense strength. Our defense budget sends a message to friends and adversaries alike that we have the will and the strength to deter aggression and to deny the Soviet Union a military advantage that can be exploited against our interests and those of our allies and friends.

From this perspective the two-year defense budget submitted by the President to the Congress is a most modest investment in security. But it is designed to secure the steady, long-term strengthening of America's needs. It builds on our past investments by maintaining our strategic modernization program and upgrading our conventional forces. It also acknowledges that the foundation of our defense capabilities is our military and civilian personnel, whose performance remains unsurpassed in the world today. Our budget continues our efforts to provide adequate pay, compensation, and quality of life for our volunteers who perform those difficult and dangerous tasks for all of us.

Our budget also invests in the future security of Americans with a comprehensive and focused research and development program. Most important among our projects is the Strategic Defense Initiative (SDI), which will provide a new opportunity to move beyond deterrence based solely on the threat of retaliation, and to secure a thoroughly reliable defense against Soviet nuclear missiles to protect all our people.

Ours is a prudent defense budget designed to accomplish all these goals and more. It is consistent with the defense priorities set by President Reagan in the beginning of his first term -- and repeatedly endorsed by the Congress and the American people. But, if this defense budget is not supported, the increased risks to the nation will be felt first on the front lines where America's uniformed citizens will have fewer of the high-quality weapons systems they need to deter aggression, or fewer opportunities for essential training, or less of the support needed to sustain operations. It is here that risks to our security, accepted by those who would cut our budget again, could tempt tyrants to begin aggression. This we must, and can, avoid.

Because America has begun to regain the defensive strength we lost in the 1970s, we have seen a resurgence of support for American ideals worldwide and a growing respect for our national interests. The Soviets have returned to negotiations they once spurned; our allies have renewed their commitments to the defense of our shared interests; those people seeking freedom from oppressive regimes have turned to the United States for counsel and support; and all who back or practice terrorism have been unequivocally warned of the terrible consequences and costs of their actions.

Without doubt, congressional support for President Reagan's vision of America as a great nation has underwritten our successes in recent years. We can continue to be successful; we can continue to lead the world toward a more stable, peaceful, and prosperous future; but only if we very clearly demonstrate our intention to maintain the strength required to pursue and achieve these noble American goals.

Or, we can meanly conclude that we cannot or will not afford to do what is necessary to keep our freedom. If we choose that course, we will indeed lose our freedom and our peace.

The defense budget I present today for the President will help us stay strong and free. I urge the Congress to approve our defense program -- to cast its vote firmly in support of a secure future for Americans and for all who love peace and freedom.

Joseph W. Kenton

Table of Contents

	Page
A. To Provide For the Common Defense	7
<i>How Much is Enough?</i> , 7	
<i>Formulating A Defense Budget</i> , 8	
<i>What Level of Security?</i> , 10	
<i>Is Our Defense Budget Wisely Spent?</i> , 13	
B. Threats, Military Balances, and	
Net Assessment	15
<i>The Nature of the Soviet Union</i> , 15	
<i>Other Threats to U.S. National Interests</i> , 16	
<i>Military Balance Assessment</i> , 16	
<i>The Strategic Balance</i> , 17	
<i>The NATO-Warsaw Pact Balance</i> , 19	
<i>The East Asian Balance</i> , 21	
<i>The Middle East / Southwest Asia Balance</i> , 21	
<i>The Maritime Balance</i> , 22	
<i>The Power-Projection Balance</i> , 23	
C. U.S. Interests, National Security Objectives,	
and Strategy	23
<i>U.S. Interests, Commitments, and Goals</i> , 23	
<i>National Security Objectives</i> , 24	
<i>U.S. Defense Strategy</i> , 25	
<i>Supporting Defense Policies</i> , 28	

D.	Pillars of U.S. Defense Policy	30
	<i>Nuclear Deterrence and the Strategic</i>	
	<i>Defense Initiative, 30</i>	
	<i>Conventional Deterrence and Low-Intensity Conflict, 33</i>	
	<i>Reducing and Controlling Arms: A New Realism, 36</i>	
	<i>Competitive Strategies for Long-Term Security, 38</i>	
E.	The Defense Budget	39
	<i>Two-Year Budgeting, 39</i>	
	<i>Components of the FY 1988 / FY 1989 DoD Budget, 39</i>	
	<i>Conclusion, 41</i>	
F.	U.S. Military Capabilities: Progress and Programs ..	42
	<i>Defense Progress and Programs, 42</i>	
G.	Program Highlights	49

A. TO PROVIDE FOR THE COMMON DEFENSE

1. How Much Is Enough?

The perennial question free peoples ask regarding defense is, "How much is enough?" To this there can be no precise answer. A nation's security is a function of the degree of risk a country is willing to accept. It can never be perfectly safe, and increased security requires increased costs, for freedom can so easily be lost.

Democratic peoples elect leaders to decide major policy issues like "How much is enough?" On occasion, however, the electorate will convey through its votes a clear conviction on defense preparedness. In 1980, with their election of Ronald Reagan, the American people sent just such an unmistakable message: reverse a decade of neglect and increase U.S. military strength. In the years since then, with the bipartisan support of the Congress, the Reagan Administration has made substantial progress in addressing the nation's 1980 mandate for a stronger defense, which was reaffirmed in 1984.

During the past two years, however, the Congress has made deep reductions in President Reagan's defense budget. These reductions jeopardize our military progress to date, delay the achievement of a safer level of security, and increase the eventual cost of this prudent defense posture.

So it is appropriate for this 1988 Annual Report to the Congress to begin by asking -- Why have our last two defense plans been so dramatically under-funded? I think there are two reasons: (1) many feel that we have completed the task, that our military strength is regained and that we can now go on to far more popular pursuits; and (2) too many in Congress feel that the nation's only priority is deficit reduction and that the best way to achieve this is to cut defense spending, regardless of our real security needs.

During the past year some in the Congress also recognized, correctly, that if deficit goals under Gramm-Rudman-Hollings were not met, the resulting defense cuts required by that Act could be even more damaging, because these cuts would be indiscriminate and across the board. Unfortunately, some congressmen translated the specter of these automatic cuts as a mandate for even deeper cuts in defense. In such an atmosphere few either assess the impact of these reductions on our nation's security, or appear to worry about it. This naivete, to give it its kindest interpretation, is sadly reminiscent of U.S. attitudes in the 1930s. Fortunately for the United States and the free world, we are far stronger now than we were in 1980, and there is considerable additional military strength already paid for that will be delivered over the next two or three years.

All of these factors have helped guide this year's decisions as to the proper amount of the overall budget to allocate for defense. It is not physically possible in a peacetime environment for all of our defense needs to be met at the earliest possible time. There are economic production rates, manpower constraints, and many efficiency considerations to weigh in deciding the best pace for strengthening our defenses. The two-year defense budget for FY 1988/FY 1989 that

we submit now continues to be a long-range plan. We propose through this budget to keep America strong through continued steady progress toward modernization and other defense improvements. We seek to avoid the stop-and-start defense budgeting that has, too often in the past, promoted inefficiency and instability. But we do not and should not try to fool the country into believing that a politically easy, deeply cut military budget can serve the long-term security or fiscal interests of our country. We can easily afford what we need to do to keep our freedom. The real question is: Do we have the will and the resolution, and even the desire, to keep that freedom?

Most citizens realize that the safeguarding of our nation and our vital interests must be our first priority. Budget deficits and domestic program cuts can be rectified; but security shortfalls carry the risk of irreversible losses. Together, we must look beyond the immediate present. We must understand that America's security begins well beyond our shores, and that our interests are worldwide.

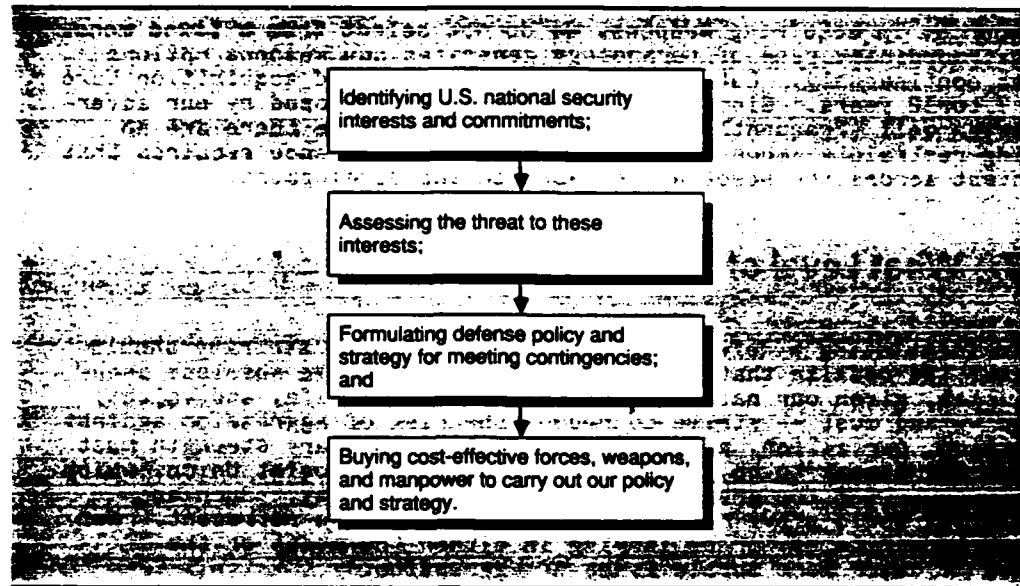
We must realize, too, that we cannot do the task alone, and that we need allies and friends in all parts of the world. We must recognize also the long-term consequences if our allies and friends perceive us waning in military strength and in resolve to protect our shared interests. Many would not notice the subtle erosion of our security as once-friendly nations drifted toward neutralism, or worse, accommodation to the pressures of our adversaries. But both such unfavorable developments are possible consequences of inadequate American strength and leadership. Any neglect of our own security has global consequences.

In sum, American defense budgets should be based on defense needs, not on political expediency or short-term fiscal goals. To this end, this FY 1988 Annual Defense Report to the Congress analyzes America's defense needs and presents a coherent plan for addressing those needs at a prudent and efficient pace. Our goal is to keep America safe and free, not just as safe or as free as short-term fiscal and political goals allow. Anyone who says we cannot afford to do what we must to keep our freedom is halfway along the road to losing it.

2. Formulating A Defense Budget

The Department of Defense (DoD) uses a sound and reasoned process to determine our nation's military needs, which in turn drives the composition and scope of the defense budget we submit to the Congress. It is a complex endeavor involving thousands of people and, properly done, it takes many months. It requires both a careful analysis of facts and the ability to make informed judgments as we look forward over the next five years. The major steps of this analytical process are displayed in Chart 1.

Chart 1
Determining Defense Needs



The logic of defense planning is clear. The need for military forces arises from U.S. security interests and commitments. These interests are threatened by adversaries in ways that could create contingencies that U.S. forces must then be able to meet. Defense policy judgments on the best way for the United States to respond are translated into requirements for specific forces designed to provide the necessary capabilities at the lowest possible cost. The most complex and demanding step of this process, however, is the last, in which actual defense needs are determined and programs are designed to fill those needs. No exact answers emerge from this process. But one lesson is clear: U.S. weaknesses discourage our allies and encourage our foes.

Obviously, all of these budget processes are complex: First, we face inherent uncertainty about the future. The weapons we are buying today will provide the backbone of U.S. military forces well into the 21st century. Against which potential adversaries will these weapons be needed? How strong will our enemies be? What weapons will they use? What capabilities will our allies and friends have? While we attempt to analyze numbers and capabilities of opposing divisions, aircraft, tanks, and ships, such calculations are only approximations -- not infallible guides to our real needs. In the face of uncertainty, prudence requires that one hedge against the risk of being wrong. This is not a field in which we can afford many mistakes.

Second, we seek to achieve our objectives not by the use of force, but rather by detering an adversary from using his forces against us. Therefore, our strategy and forces must take into account our adversaries' perceptions and calculations.

Third, the United States cannot resolve its defense requirements without considering the possible reaction of our allies and friends, and the possible responses of our adversaries. Our weapons acquisition and force structure decisions also affect our opponents' decisions about their military forces.

Fourth, in acquiring weapons, we do not select from a fixed menu. The extraordinary pace of technology generates new weapons options almost continuously. But their design, testing, and acquisition take from 7 to 12 years. Since new weapons can be developed by our adversaries as well (frequently much more rapidly because there are no funding restraints imposed by public opinion), prudence requires that we invest across the spectrum of research and development.

3. What Level of Security?

In formulating a defense program, what level of security should we seek? We realize that it is impossible to achieve absolute security. Yet, given our nation's wealth, quality of life, and values, we can -- and must -- strive to reduce the risk of aggression against our nation, our allies, and our friends. Our military strength must not be, nor appear to be, inferior to that of the Soviet Union, which represents by far the greatest threat to our security. Such an inferiority would prove disastrous for us and all we represent. Nor must we appear to be, or be lacking in either the means or the resolve to deter more subtle forms of aggression.

Obviously, we should not buy more defense than necessary. But of all that we Americans buy, we can least afford to shortchange defense. It provides an essential shield for our freedom, our prosperity and, ultimately, our very survival. To shortchange our security is to place all that we value at risk. All Americans need to recognize the unavoidable tradeoff between defense and risk. The less defense we provide, the more risk we must accept.

How should we determine the affordability of a defense budget? Some would do it on the basis of the federal government's annual balance sheet of expenditures and revenues: if a large deficit looms, say because a sluggish economy is reducing revenues and increasing outlays, then the full defense budget is seen as less affordable by those whose principal emphasis is on minimizing the deficit. A more appropriate starting point than the predicted deficit (predictions which, incidentally, are always wrong) is our nation's wealth, as measured by our gross national product (GNP). The best measure of affordability -- the defense share of the budget -- is the fraction of the GNP devoted to defense.

In 1961, U.S. defense spending accounted for 8.3 percent of the GNP. When President Reagan took office in 1981, the share had fallen to 5.2 percent. At the end of President Reagan's first term, defense expenditures accounted for 6.2 percent of the GNP. By the end of the current five-year plan, even if fully funded, that figure would still be less than 6 percent of the GNP. As Chart 2 shows, the Soviet Union now devotes two-and-a-half times the percentage of GNP to military purposes as the United States does. If the United States were to devote the same percentage of its GNP to its military as the Soviets do, we would be submitting a defense budget for 1988, not of \$303 billion, but more than \$700 billion! Fortunately, our economy is approximately twice as productive as that of the Soviet Union.

Even so, the additional strength the Soviets gain from their military spending far exceeds our own every year.

Chart 2

**A Comparison of the Defense Fraction of U.S. GNP
with the Estimated Defense Fraction of Soviet GNP**

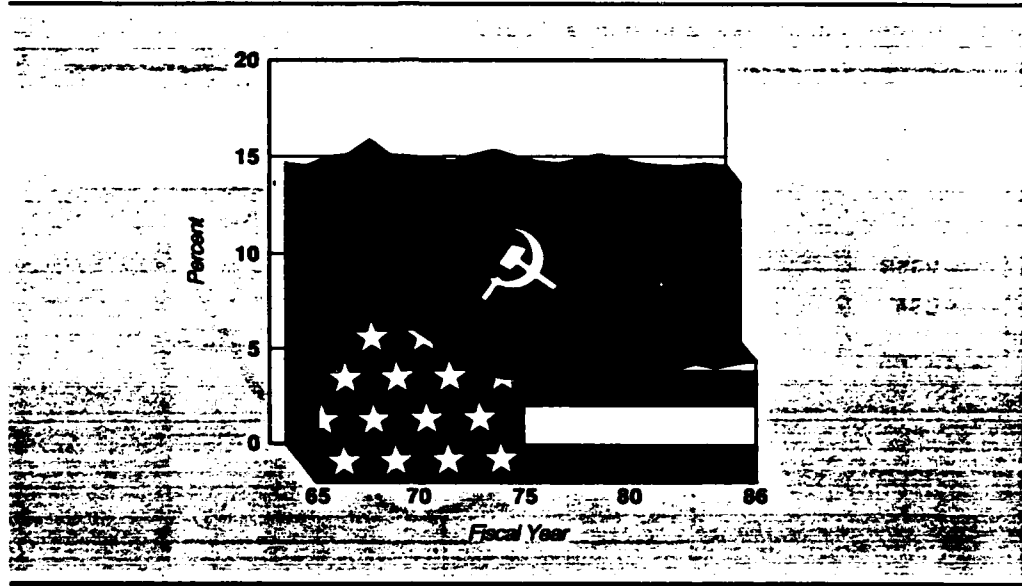


Chart 3

**A Comparison of U.S. Defense Investment Expenditures
With the Estimated Dollar Cost of Soviet Investment Expenditures**

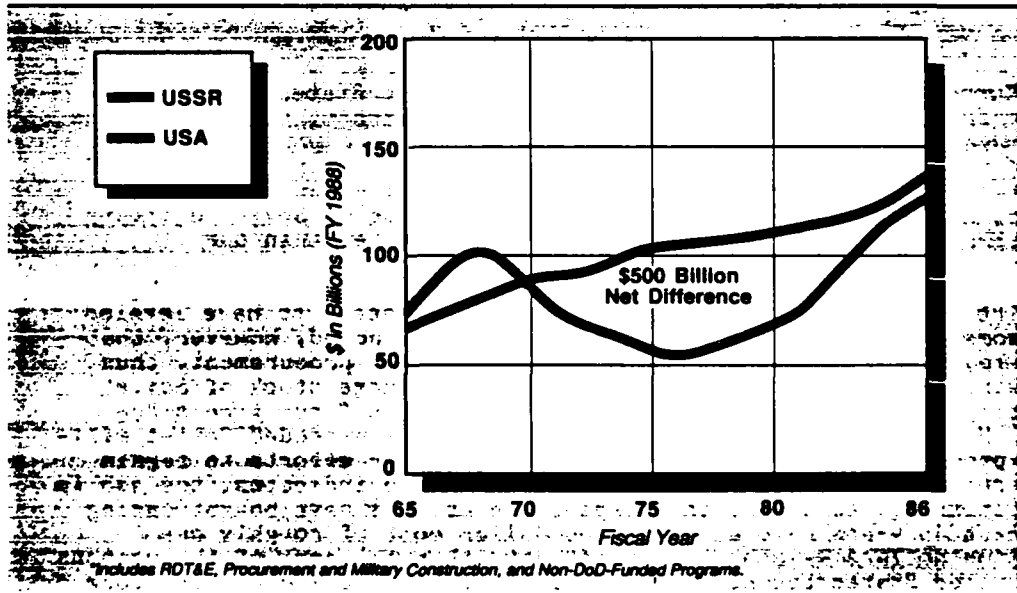
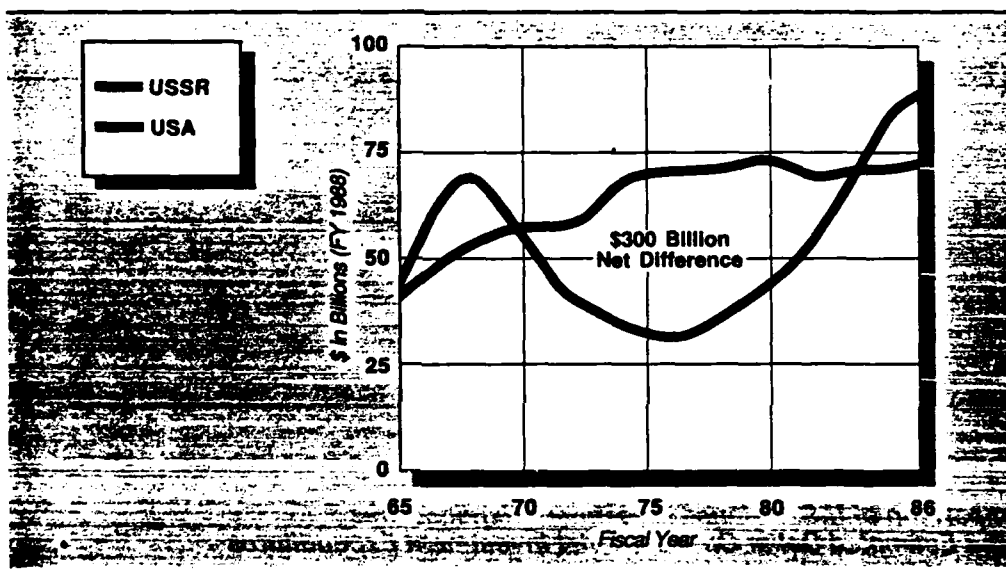


Chart 3 compares U.S. and estimated Soviet costs over the past 20 years for military investment programs -- the procurement, construction, and research and development activities that build a long-lasting stock of military assets. Chart 4 shows Soviet and U.S. procurement alone. These charts clearly show the enormous gap that has emerged since 1970 between the level of Soviet defense activities and our own. With the President's leadership and Congress' support until 1985 we have managed to close much of this gap, but much remains to be done before we feel we can deter any attack by the Soviets against ourselves and our allies.

Chart 4

**A Comparison of U.S. Defense Procurement Expenditures
With the Estimated Dollar Cost of Soviet Procurement Expenditures**



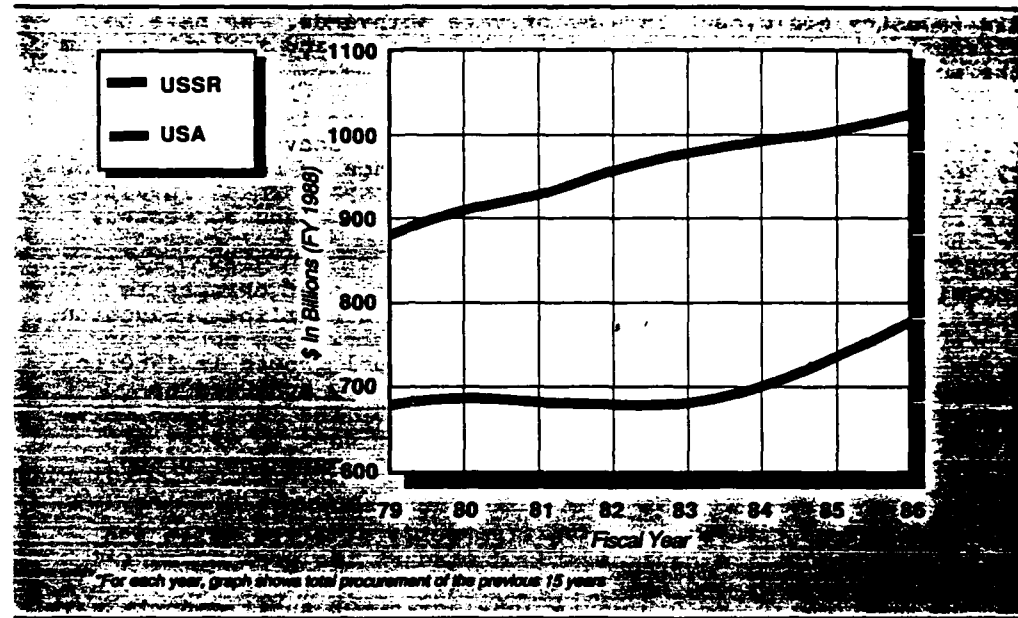
Current military capabilities of the United States and Soviet Union are a product not only of current investments, but also of the accumulated acquisitions of previous years. For a proper understanding of our relative capabilities, we must compare the stock of capital assets -- airplanes, ships, tanks, etc. -- in the U.S. and Soviet arsenals. The fact that the dollar value of Soviet military investment during the 1970s was 70 percent greater than our investment shapes the reality we confront today.

The growth of Soviet military procurement seems to have leveled off somewhat over the last decade. It must be noted, however, that this leveling off has occurred at a high rate of procurement, thus allowing for continued growth to the already large stock of Soviet military assets (see Chart 4). In 1984, for the first time since 1969, U.S. military procurement appears to have exceeded Soviet military procurement, an important achievement. Our efforts to regain full deterrence are paying off. But as Chart 5 indicates, the job is not finished. As shown, the weapons the Soviets have bought during the last 15 years have an estimated dollar cost of roughly one trillion dollars -- over 30 percent more than the cost of the weapons the United States bought in the period. Thus, rebuilding our stock

of military assets to levels that can assure deterrence of attack by the Soviets will require our continued efforts.

Chart 5

A Comparison of Accumulated U.S. Procurement With the Estimated Dollar Costs of Accumulated Soviet Procurement



4. Is Our Defense Budget Wisely Spent?

The answer to this question is, yes. Unfortunately, in recent years a number of myths about our spending have emerged, contributing to an erosion of our national consensus to rebuild America's military strength. One purpose of this Annual Report is to replace these myths with facts.

One such myth is that we have not made substantial progress in rebuilding military strength. The reality is that we have had remarkable success in improving virtually every facet of our military forces. We have made major improvements in the quality and morale of our people, weapons modernization, readiness, training, and sustainability.

One of my top priorities as Secretary of Defense is to ensure that the defense budget is being efficiently and effectively managed. To accomplish this we have, since 1981, taken numerous initiatives with the goal of getting the maximum value from our defense dollars. When people read about some alleged "horror story" regarding defense purchases, many tend to assume that this is just the "tip of the iceberg." Almost all overlook the fact that we very likely found the problem and corrected it.

To judge the quality of DoD's management, one must appreciate the size and complexity of our department's activities. Consider our people, over eight million in all. Furthermore, DoD organizations and facilities span the globe. We manage over 5,400 properties and installations. The department operates over 400,000 housing units -- more than twice the number of public housing units in New York City. We deal with over 300,000 contractor establishments. We initiate 15 million contract actions each year, valued at about \$160 billion. DoD currently supports over one-half of the ship construction and repair industry employment in U.S. private shipyards. We have both the largest school system, and the largest health and medical system in the world.

Still, even one real DoD management deficiency is one too many. That is why we continue our intense efforts to discover and correct every shortcoming. We welcome outside assistance in uncovering problems, although many such outside "discoveries" are termed "investigative reporting" and are based on findings we made and corrected.

Many of our initiatives have been directed toward improving the DoD acquisition system. We have introduced scores of changes to increase competition, improve cost estimating, streamline production, and more. These reforms have paid off. Cost growth in our major programs was reduced from about 14 percent annual growth in 1980 to less than 1 percent in 1983 and 1984. We actually achieved an estimated cost reduction of 0.8 percent in 1985, the last year for which information is available. This reduction came in spite of congressionally mandated procurement changes, changes that often resulted in higher per unit costs.

As part of our reforms, we have vigorously attacked waste and fraud through aggressive management and through the work of our Inspector General (IG) and the Defense Contract Audit Agency (DCAA). Since the creation of the DoD IG in 1982, over 600 audit reports have identified nearly \$5 billion in potential monetary benefits. Potential monetary benefits from all other DoD audits/reviews since 1982 totaled \$11.1 billion. In addition, DCAA audits are responsible for a total reduction in procurement spending of over \$9 billion since FY 1982.

Recently, the Packard Commission made several recommendations to help improve DoD management further. We had already implemented many of these recommendations and support others. We are making every effort to implement the remaining recommendations, which are built on the progress we have made since 1981. Many of them require congressional enactment.

The stage has already been set for stabilizing the acquisition process. We have just submitted our first biennial budget with increased emphasis on multiyear procurement. As recommended by the Packard Commission, legislation to baseline selected major programs has been enacted. This will permit these programs to be authorized for up to five years and budgeted for two years. We look forward to carrying out our responsibilities in this regard. Now we hope that the Congress will fulfill its commitments as well.

Furthermore, we will continue to establish annual management priorities in our DoD Management Improvement Plan and focus increased attention on those areas with the greatest potential savings.

Over the past two years, severe constraints have been placed on essential defense spending. We are doing our part to ensure that our

scarce defense resources are managed as efficiently as possible, and ask the Congress to continue working with us to reach this goal.

B. THREATS, MILITARY BALANCES, AND NET ASSESSMENT

Of the threats to our national security that our defense programs are designed to meet, that posed by the Soviet Union is by far the most serious and the most immediate. Of course, the United States has citizens, allies, friends, military forces, and interests abroad that can be threatened by nations and groups much less powerful than the Soviet Union, and our defense policies account for those threats as well. But the largest, and most expensive, part of our defense effort is driven by the power and policy of the Soviet Union.

1. The Nature of the Soviet Union

Scholars continue to debate the question of Soviet motives and objectives. A prudent American defense policy, however, cannot rest on theories of Soviet motivation, but must respond to the facts of Soviet policy and military capability. The most salient facts are these:

- The Soviets have built, and are continuing to build, an enormous military capability at great cost to their society. The Soviets have more than 200 ground force divisions, roughly 1,400 intercontinental ballistic missiles, over 50,000 tanks, approximately 260 operational attack submarines, and more than 8,400 tactical aircraft -- far more than any other nation on earth; far more than could possibly be needed for self-defense. They maintain elaborate plans and preparations for large-scale Soviet invasions far beyond their borders. They modernize constantly and never complete deployment of one system without beginning at once the development of a follow-on next generation system. If we knew nothing else about the Soviet Union, these facts alone would require that we take prudent measures to offset Soviet military capabilities.

But we do know other facts about the USSR:

- The avowed Soviet policy is to promote communist revolution throughout the world. Lenin described the goal as a "single, worldwide Soviet Republic." Current Soviet pronouncements support so-called "national liberation" movements, i.e., efforts by armed minorities to achieve absolute power to remake their societies without the consent of the governed. In addition to promoting such movements, Soviet military assistance and advisors, and Soviet and Cuban troops have been deployed to preserve them in power. Some observers see in this activity something less ambitious than a methodical quest for world domination, as reflecting only a Soviet "opportunism" that seeks to expand Soviet power where opportunities present themselves. But that view means that Soviet expansionism is inhibited only when other nations' resolve denies them opportunities to practice it.

- The Soviets have shown their willingness to use military force to invade and coerce other countries. The same reasoning that justifies the intimidation of Poland and the invasion of Afghanistan can be applied elsewhere as well -- except when the balance of military forces makes such policies impractical.
- Certain internal characteristics of the Soviet state pose enduring challenges to other countries. For example, its secrecy, which makes it difficult for the United States to predict policy reversals; or its totalitarian character, which means there is no public opinion to impose any restraints on the small number of all-powerful rulers in the Kremlin. Moscow can and does concentrate enormous resources on offensive military power.

These facts mandate that our military forces be sufficient to deter Soviet aggression and resist Soviet coercion against ourselves, our allies, and our friends.

2. Other Threats to U.S. National Interests

Through the rest of this century, low-intensity conflict (LIC) will be the next most likely challenge to U.S. national interests. The dimensions of the threat are tragically apparent. Since the communist takeover in Cuba, 17 other totalitarian regimes have come to power through externally supported insurgency and subversion. Indeed, there are at least nine current active insurgencies in our own hemisphere.

Terrorism and the flow of illegal drugs are also integral components of LIC. We have come to recognize that these threats are not merely isolated occurrences. Terrorism is increasingly transnational and state-supported. Drug trafficking is increasingly sophisticated and politically motivated. In both cases, there is an element of exploitation by the Soviets and their surrogates.

The growing threat that these forms of ambiguous aggression pose to the United States, our allies, and our friends mandates that we maintain sufficient military forces to deter such aggression, and to defeat it should deterrence fail.

3. Military Balance Assessment

Assessment of the military balance is not an exact science. It requires considering a very large number of factors that are difficult to measure. Comparing numbers of units, weapons, or soldiers is a start; but qualitative differences must also be taken into account, as well as their peacetime deployments, mobility, operational planning, and command, control, communications, and intelligence capabilities. The quality of leadership and training, the state of morale, and the ability to achieve surprise are also important factors. Indeed, in a number of historical cases they have proven decisive.

Although great superiority in numbers is always a major factor, it is also vital to know whether the military balance is consistent

with U.S. security objectives. The following sections briefly describe the strategic balance, the military balance in each major region of potential U.S./Soviet conflict, and the maritime balance and power-projection forces that bear upon all of those regions.

4. The Strategic Balance

U.S. strategic nuclear forces are designed to deter nuclear attack and to help deter conventional attack on ourselves and our allies. Deterrence depends on the Soviet leadership's assessment of our forces and policies, not on our own assessment. The Soviet leadership must be convinced that our response to their aggression would inflict an unacceptable cost for any possible benefit. The sheer destructiveness of nuclear forces does not by itself guarantee deterrence. Our forces must be survivable (so that an enemy nuclear strike cannot disarm us of our ability to respond), capable (so as to attack the military and command assets we believe the Soviet leadership value most highly), flexible (so that they can deter aggression in a variety of contingencies), and discriminative (so we can respond in a manner appropriate to the particular attack).

Soviet force development reflects a set of objectives for strategic and related forces that is far more ambitious than our own. The Soviets attempt not simply to deter any attack against themselves, but to erode the deterrent character of U.S. nuclear forces. By modernizing their offensive forces in ways that threaten our deterrent capabilities, and engaging in a variety of defensive preparations, the Soviets are attempting to make our strategic offensive forces less secure against attack and less effective in response.

Measured by their dollar cost, Soviet strategic force procurement programs as a whole are considerably larger than ours, with an even greater disparity in strategic defense procurement programs (see Charts 6 and 7). These estimates exclude wartime mobilization and civil defense programs, which are far more extensive on the Soviet side.

Chart 6

A Comparison of U.S. Strategic Force Procurement with the Estimated Dollar Cost of Soviet Strategic Force Procurement

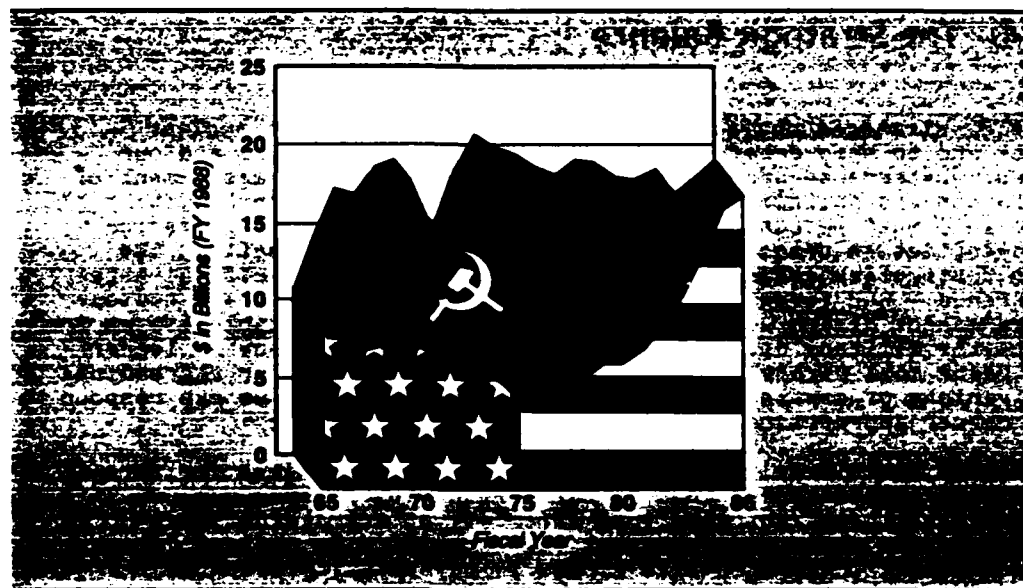


Chart 7

A Comparison of U.S. Strategic Defense Procurement Expenditures with the Estimated Dollar Cost of Soviet Strategic Defense Procurement Expenditures



The U.S. strategic modernization program is replacing and augmenting our older systems, the majority of which have served for well over two decades.

For the immediate future, our planned offensive force modernization appears sufficient to maintain a robust deterrent to a Soviet nuclear attack on the United States and our allies. While the Soviets apparently seek a capability to combine offensive strikes and defensive preparations designed to limit greatly the damage a U.S. retaliation could do, they do not have that capability, and are unlikely to believe that they do.

By the late 1990s, more advanced defenses may substantially change the basis of deterrence and the nature of the strategic balance. The Soviets continue to work to secure active defenses. Our Strategic Defense Initiative (SDI) has made substantial progress in developing technologies to make defense against ballistic missiles feasible. When these efforts come to fruition, we can move away from an almost exclusive reliance on, and attention to, offensive strategic forces.

5. The NATO-Warsaw Pact Balance

The conventional forces balance in Europe has historically favored, and still favors, the Warsaw Pact by very sizeable margins.

Chart 8

Production of Selected Weapons for NATO and Warsaw Pact Forces (1977 - 1986)



Increases in Pact in-place ground forces reflect weapons production rates that have exceeded those of NATO for at least the last ten years (see Chart 8). These rates have allowed the Pact simultaneously to expand and modernize the maneuver elements of their ground forces. Those modernization efforts, in conjunction with the Pact's quantitative advantages, have resulted in a continuation of the trends adverse to us in ground force combat power.

While we have done substantially better in terms of keeping the Pact from improving their tactical air power advantage, we have not been able to reduce that advantage. This situation is of additional concern since it complicates our effort to use tactical air forces to compensate for insufficient in-place ground forces.

Increases in the number of Pact long-range, dual-capable surface-to-surface missiles (SSMs) pose a new and serious threat to NATO's air forces and air defense systems. This threat will increase further as the Pact continues to modernize its SSM force with longer range, more accurate systems.

Collectors of esoteric isolated statistics are fond of seizing upon single indicators, such as the fact that NATO has a greater GNP than the Warsaw Pact, to give them comfort to further their thesis that we do not need to spend very much on defense. But the annual weapon output of the Warsaw Pact, and the quality of those weapons, remain the most vital statistics of all, and they should be the most energizing for the West.

NATO can no longer rely as heavily as it once did on its nuclear forces in Europe to compensate for the Pact's conventional advantages. In recent years, the Soviet Union has made substantial improvements across the full range of its nonstrategic nuclear forces. At the same time, the Soviet Union is developing an overall force structure and military strategy which would seek to neutralize NATO's capability for nuclear response early in a conflict.

NATO recognizes that it must make greater efforts to enhance its conventional capabilities if it is to continue to deter the Soviets from calculating that they can fight and win a war in Europe. The Conventional Defense Improvements (CDI) within NATO is intended, in part, to identify emerging technologies that will enable us to improve the conventional balance. This is an example of how we are focusing our efforts, when possible, on Soviet weaknesses and enduring Western strengths.

Additionally, we and our allies are undertaking efforts to increase the level of arms-production cooperation to get more from our collective defense dollar. We have made considerable progress in this critically important field, and I intend to continue emphasizing this approach during the remainder of my tenure as Secretary of Defense.

In sum, although the trends in the military balance in Europe are adverse, we see opportunities for reversing these trends if we focus our efforts on key areas, maintain a consensus within the alliance on improving our conventional defense capabilities, and ensure the maintenance of a credible, modernized nuclear deterrent.

6. The East Asian Balance

The Soviets continue expanding and modernizing their forces in East Asia. They are upgrading the equipment of their more than 50 divisions deployed in the Far East. Their more than 40 tactical air regiments stationed there are receiving newer aircraft. The latest generation of interceptor aircraft are also entering the regional inventory. Backfire aircraft continue to augment the older inventories of Badgers. The Soviet Pacific Ocean fleet is the largest in the Soviet navy. These conventional forces are supplemented by a substantial number of short- and intermediate-range nuclear forces, including the land-mobile SS-20. Outside the Northeast Pacific, the Soviet naval and air presence in the South China Sea now comprises approximately 30 ships and submarines, and 40 aircraft, operating from Cam Ranh Bay, Vietnam.

The Sino-Soviet military balance continues to favor the Soviet Union. It will continue to do so due to Chinese emphasis on economic growth which reduces funds available for immediate defense improvements in its long-term modernization programs.

The second significant regional balance, between North and South Korea, is of critical interest and concern to the United States. The military preparedness of the Republic of Korea, coupled with North Korea's perception of America's resolve, have been instrumental in keeping the peace for nearly 34 years.

Southeast Asia is the locus of the remaining significant regional balance. Vietnam fields the world's third largest army. With direct financing from the Soviets, it continues to occupy Cambodia, threatens Thailand and the overall stability of ASEAN, and poses a constant menace to China by deploying some 700,000 troops along the Chinese border. In exchange for base rights, the Soviets provide military equipment and continue to support the failed Vietnamese economy. Containing this threat requires our continued attention.

Although some aspects of the regional balance favor the Soviets, there are many important theater-wide considerations that favor the United States and its allies. Japan plays a significant role in bolstering democratic defenses in the region. Indeed, the rapid economic development of Japan and the newly industrialized countries of the East Asian rim, together with the growth of the Chinese economy, continue to broaden the basis for developing the self-defense capabilities of friendly regional countries. The United States is pursuing economic and security policies that tie our countries more closely together.

In view of these positive economic trends in East Asia, with the notable exception of Soviet allies or clients, the long-term regional trends appear favorable from our perspective.

7. The Middle East / Southwest Asia Balance

The Middle East/Southwest Asia region's critical geostrategic location, its considerable petroleum resources, and its proximity to the Soviet Union combine to make it an inviting target for Soviet expansionism. The immediate Soviet threat to the region in a global conflict consists of 30 active ground divisions, including some 5,450

tanks, over 1,400 fixed and rotary wing tactical aircraft, and numerous mobile missile launchers. Long-range bombers from air and naval units stationed outside the Southern Theater of Military Operations could also be directed to interrupt our projection of forces to the region. The Soviets have also been active in developing support bases for Soviet navy presence in the Indian Ocean. Since 1979, the Soviets have been using military force in their attempt to subjugate the Afghan people.

Our national security objectives in the Middle East and Southwest Asia include: deterring and, if necessary, defending against Soviet aggression; countering Soviet moves to gain power and influence; and protecting free world access to resources. Since 1981, we have improved our capability for projecting military forces to the region. We have built our potential force allocation to more than six ground divisions and over 600 tactical aircraft, and we now have the capability to deploy rapidly about four divisions into the region.

Our capability to project significant forces quickly into the region helps to deter Soviet attack. Should deterrence fail, we could successfully defend the region with substantially fewer ground forces than the Soviets would need to seize and occupy it, provided our forces are heavily supported by tactical air. We would need to be supported against a common foe by our friends and allies in the region and elsewhere by nations whose very existence depends on the West's continuing access to the oil fields. We would need to come to rapid accord with them regarding access and host nation support, and the continued flow of defensive military strength for our defensive military operations.

8. The Maritime Balance

The U.S. Navy's capability to protect our sea lines of communications and to project power remains crucial to Western security. Almost any type and level of conflict involving U.S. interests will require movement of forces by sea.

The Soviet navy's major roles and missions are to assure that Soviet SSBN forces will be able to launch their missiles, and to deny the West access to sea areas from which forces can be projected into the periphery of the Soviet Union. These "sea-denial areas" have been expanding as the Soviet navy has grown, and now include the southern Norwegian Sea and northwest Pacific.

Though the overall balance is favorable today, thanks to our naval expansion and the significant maritime contributions of our NATO allies, it is becoming more complex. The antisubmarine warfare picture will be complicated by the improved platforms on both sides, with a declining U.S. ASW advantage. Fleet air defenses will be increasingly challenged by improved antiship missiles entering both inventories. The United States, however, will retain significant advantages. The Soviet emphasis on the mission of SSBN protection limits forces available for other tasks. Despite improvements in the Soviet submarine force, the United States currently maintains an ASW edge. The U.S. Navy will continue to hold considerable advantages in tactical air and sustainability at sea, and in its ability to operate the new and more sophisticated ships entering the inventory.

9. The Power-Projection Balance

Deterring war across the conflict spectrum, assuring war outcomes that do not compromise our interests, and improving, or at least maintaining, alliance cohesion are all goals that depend upon our ability to project force. With respect to areas outside the periphery of the Soviet homeland, our capability to project forces remains superior to the Soviet capability. However, the Soviets' continental location and large military establishment give them an advantage in applying force in Western Europe and along the Soviet periphery, while U.S. forces, in almost any type and level of conflict, would have to "project" from the continental United States (CONUS).

We have significantly improved our power-projection capabilities in the 1980s. Soviet power-projection forces are also improving, although some programs are moving more slowly than we had anticipated. Two aspects of the power-projection balance provide reason for concern. First, new Soviet force developments significantly enhance their ability to compete with the United States for influence in areas far from its borders; second, the Soviets are employing a variety of other means (such as ambiguous aggression) to gain access to, and make inroads in, Third World areas where there is little danger that they will encounter United States or competent local forces.

In summary, while U.S. programs in place will enhance our ability to move and support significant forces, as in the reinforcement of Europe, the Soviets emphasize more subtle, indirect forms of power projection. Moreover, the military capabilities of the Soviet merchant marine, the expansion of the Soviet airlift force, the advent of new and unique platforms, like WIGs, and the expansion of Soviet sea-based air capability could allow the Soviets to compete more realistically in areas of U.S. concern in the absence of continued U.S. attention to power projection.

*Most importantly, our power-projection effectiveness depends not only on our own capabilities and programs but also on close cooperation with regional allies and friends. Successful power projection requires allied assistance in the areas of basing and staging facilities, overflight rights, prepositioning sites ashore, and host nation support.

C. U.S. INTERESTS, NATIONAL SECURITY OBJECTIVES, AND STRATEGY

1. U.S. Interests, Commitments, and Goals

U.S. national interests encompass both broad ideals and specific security assets. America's paramount national interests are peace, freedom, and prosperity for ourselves and for our allies and our friends, and for others around the world. We seek an international order that encourages self-determination, democratic institutions, economic development, and human rights. We endorse the open exchange

of ideas and other measures to encourage understanding between peoples.

More specifically, we maintain our steadfast concern for the security and well being of our allies and other nations friendly to our interests. We oppose the expansion of influence, control, or territory by nations opposed to freedom and other fundamental ideals shared by America and its allies.

The protection of U.S. interests has, over the years, led America to enter into joint commitments with other nations in the form of international treaties and agreements that reflect those interests. Alliances like NATO, and bilateral agreements such as those we have entered into with Japan and the Republic of Korea, serve to defend those common values that we share. By defending ourselves in this collective manner, we not only improve our own security, but we do so at a reduced cost, since the defense burden, which benefits all, is borne by many nations, and not the United States alone. Our adversaries seek to undermine these values and interests, thereby generating our need for military strength to uphold our commitments.

2. National Security Objectives

The threats to U.S. interests require us to formulate national security objectives to counter those threats. Major U.S. national security objectives are to:

- Safeguard the United States and its forces, allies, and interests by deterring aggression and coercion; and should deterrence fail, by defeating the armed aggression and ending the conflict on terms favorable to the United States, our allies, and our interests at the lowest possible level of hostilities.
- Encourage and assist our allies and friends in defending themselves against aggression, coercion, subversion, insurgencies, and terrorism.
- Ensure U.S. access to critical resources, markets, the oceans, and space.
- Where possible, reduce Soviet presence throughout the world; increase the costs of Moscow's use of subversive forces; and foster changes within the Soviet bloc that will lead to a more peaceful world order.
- Prevent the transfer of militarily critical technology to the Soviet bloc.
- Pursue equitable and verifiable arms reduction agreements. Because compliance is key to the value of any international agreement, and in view of the Soviet record of violations, fully effective verification is the most vital part of any agreement.

3. U.S. Defense Strategy

America's basic defense strategy, as it has been for the entire postwar period, is to deter aggression. Our strategy seeks to safeguard U.S. interests by convincing adversaries not to commit aggression against those interests. It precludes an attack from happening in the first place through clear alliance commitments and ready forces that provide us with an effective and credible response to any level of aggression.

Deterrence works by persuading potential adversaries that by their perceptions, the probable costs of their aggression will exceed the probable gains. Deterrence is the U.S. strategy against conventional as well as nuclear aggression. Among nuclear powers, any conflict carries the risk of irreversible escalation; therefore, our goal is to dissuade aggression of any kind.

We seek not only to deter actual aggression but also to prevent coercion of the United States, its allies, and friends through the threat of aggression. Successful coercion could give a hostile power the fruits of war without actual conflict. In Europe and Japan, for example, the Soviet threat consists of not only the danger of an actual attack, but also a long-term campaign of propaganda and coercion.

To deter effectively, U.S. defense strategy must meet four tests:

- **Survivability:** Our forces must be able to survive a preemptive attack with sufficient strength to be able to inflict on an aggressor losses that the aggressor perceives will outweigh any gains to itself.
- **Credibility:** Our threatened response to an attack must be credible; that is, the potential aggressor must believe we have both the capability and the political will to carry out our threatened response.
- **Clarity:** The action to be deterred must be sufficiently clear to our adversaries that they know what is prohibited.
- **Safety:** The risk of conflict through accident, unauthorized use, or miscalculation must be minimized.

Thus, the U.S. strategy to deter aggression does not just depend on our actual military capabilities. It also involves our adversaries' perceptions about those capabilities as well as the other elements of our strategy. The effectiveness of our deterrent will be determined in our opponents' minds, not in ours.

Incorporation of this insight in operational defense planning presents a formidable intellectual and institutional challenge. Since our knowledge of Soviet perceptions is limited by their curtain of secrecy, there is a tendency among some to assume that Soviet concerns and motivations mirror our own. But preparing to deter an attack only by assembling forces adequate to deter us under similar conditions could prove insufficient to deter the Soviets.

To deter the Soviet Union, we must make clear to Moscow that we have the means and the will to respond powerfully to aggression

against our interests. We emphasize our resolve to respond, but our strategy is to avoid specifying exactly what our response will be. This is the essence of our strategic doctrine of "flexible response," which has been U.S. strategy since 1961 and NATO strategy since 1967. Our forces deter a potential aggressor by confronting him with three types of possible responses:

- **Effective Defense:** To confront an adversary with the possibility that his aggression will be stopped without us resorting to actions escalating the conflict. This is sometimes referred to as "deterrence through denial."
- **The Threat of Escalation:** To warn an adversary that his aggression could start hostilities that might not be confined in the manner he envisions -- that escalation could exact far greater costs than he anticipates, or could bear, if necessary, to halt aggression.
- **The Threat of Retaliation:** To raise the prospect that an attack will trigger a retaliatory attack on the aggressor's homeland, causing his losses to exceed any possible gains.

The responses summarized above are part of the overall U.S. defense strategy for safeguarding our interests worldwide. Our global strategy for deterrence can be summarized as follows:

- To deter nuclear attack, the United States relies on a credible warning capability and our offensive nuclear forces. Should deterrence fail, the United States must be able to limit, to the extent possible, damage to the United States and its allies, and to force the earliest termination of hostilities on terms that best protect U.S. and allied interests. Sufficient U.S. nuclear capabilities must endure under all circumstances to deny another nuclear power the ability to coerce the United States. In the future, we expect that strategic defenses will make an increasing contribution to the prevention of (and hence add to the deterrence of) a successful nuclear attack against us.
- To deter nonnuclear aggression, we rely on a military posture comprising U.S. conventional and nuclear forces, and allied forces. This combination of forces deters by making the outcome of Soviet aggression uncertain in their minds and by making the probable costs exceed the probable gains in the minds of any potential aggressors.

Compared to the threat of escalation and retaliation, effective defense has several important advantages as a basis for deterrence:

- **High Credibility:** A potential aggressor would have no reason to doubt that a nation under attack would use its defenses to protect itself.
- **Protection:** Should deterrence fail, effective defense provides protection against attacking forces, reducing the damage we would suffer.
- **Stability:** Effective defense is not inherently escalatory, nor likely to be misinterpreted in a way that would lead to a worsening of the conflict.

- **Resistance to Coercion:** Because of the above advantages, effective defense is more successful in preventing coercion and in helping a nation resist intimidation. Possession of an effective defense builds more confidence and resolve than the prospect of escalation or retaliation after attack.
- **Reassurance:** All these advantages make effective defense the most reassuring basis for deterrence. They engender both peace, and peace of mind. People are most reassured when they are actually shielded from attack.

The unique advantages of effective defense explain the attractiveness we see in having thoroughly reliable strategic defenses, which is the objective of our Strategic Defense Initiative (SDI) research.

The advantages of defense also explain why the United States and its allies must have strong conventional forces, and the capability to project them and support them, in order to protect our global interests. We cannot rely forever solely on a nuclear crutch and maintaining the balance of terror to deter and defeat nonnuclear aggression. But, of course, as long as our adversaries possess nuclear weapons, we must continue to maintain modern, effective nuclear forces, as we are doing.

Our purpose is to prepare for war so well that we successfully deter aggression. But should deterrence fail, our strategy is to secure all U.S. and allied interests, and deny the aggressor any of his war aims. We would seek to terminate any war at the earliest practical time and restore peace on terms favorable to the United States that secure all our aims and those of our allies and friends.

U.S. strategy seeks to limit the scope and intensity of any war, and confine it to conventional means. Our goal is to end hostilities on favorable terms to us by employing conventional forces that do not engender or risk escalation. Should our attempts to limit the scope or intensity of war fail, however, U.S. strategy provides for the flexible and sufficient application of force to ensure that no area of vital interest is lost by default.

The Soviet Union, together with Soviet-backed forces, is fully capable of simultaneous aggression in multiple regions of the world, and U.S. strategy must take account of that fact. We and our allies seek to deter aggression by maintaining forces that are capable of responding effectively to the most serious threats to our interests. We also want these forces to be flexible enough to give us credible responses to other threats to our interests. Should aggression occur in several regions simultaneously, U.S. military responses would be governed by existing commitments, general strategic priorities, the specific circumstances at hand, and the availability of forces. Unfortunately, Soviet military power and Soviet intentions, as best we can read them, dictate the contingencies for which we must be ready -- neither budget deficits nor wishful thinking can change that.

4. Supporting Defense Policies

a. Balance of Forces

To protect our mutual interests, the United States and its allies must maintain military capabilities sufficient to make our defense strategy effective. This does not necessarily require that we and our allies match our adversaries in every category of weapons systems; e.g., numbers of tanks, aircraft, ships, etc. The calculus of deterrence and defense is far more complicated than just static numbers. At least as important are the performance characteristics of the weapons, the quality of people operating them, and the tactics used. Moreover, geography and the unique features of a specific security mission decisively affect the military forces needed. These variables, plus others, are weighed against the threat to our security in determining our concrete military needs for protecting U.S. interests and meeting our commitments. From these defense needs, we derive our defense programs and budget.

In 1981, the largest problem we inherited arose from a 20-year Soviet arms buildup, which was accompanied in the decade of the 1970s by a 20 percent real reduction in the U.S. defense effort. The global military balance -- in Soviet terms, the "correlation of forces" -- was shifting in favor of the Soviet Union, in their view as well as ours. Through an investment nearly 50 percent larger than our own, the Soviets were buying advantages in virtually every area of comparison -- in nuclear forces, in the NATO-Warsaw Pact balance, and in Southwest Asia.

The most important truth about our recent strengthening is that we have been buying and fielding forces to implement policies and strategies over which there was little public disagreement between our Administration and all of its predecessors back to World War II. Our principal difference arose from our judgment that we must actively move toward a more adequate balance of forces, and as quickly as possible, reflecting our view of the dangers of U.S. military inferiority we saw in 1980.

b. Alliances for Collective Security

For free peoples, cooperation and collective security are essential to the preservation of our nations and our values. We cannot afford to return to the pre-World War II myopia of isolationism and undefended neutralism, or wishful thinking and the construction of a strategy based on unfounded hope and the desire to avoid unpopular budget decisions. As witnesses to wartime horrors retire, and turn over political and economic power to younger leaders around the world, our free peoples must not be allowed to forget the perils of ill-preparedness and the short-lived intoxication of wishful thinking.

A strong system of alliances and regional cooperation helps the United States and nations friendly to our interests preserve peace and freedom. This alliance system enables us to share our common

security burdens and achieve a division of labor capitalizing on the relative strengths of each state. Our alliances with the nations of Europe, Asia, and our own hemisphere, together with other important security relationships in those regions and in the Middle East and Southwest Asia, are critical strands in U.S. strategy.

Because of our alliances, we all are able to achieve a level of deterrence and defense that otherwise would be unattainable for any one of us. Furthermore, cooperation in defense matters can reinforce political cohesion and improve diplomatic and economic relationships.

c. Security Assistance

Security assistance is an indispensable tool of American foreign policy and an essential element in strengthening our defense posture around the world. It is in our national security interest to keep old alliances strong and form new ones, and to assist allies and friends in strengthening their defenses against external aggression and internal conflict. Our security assistance program is the principal instrument for accomplishing this goal. The program also helps us gain access to bases and overflight rights, improves our power projection and forward-defense capabilities, and can augment the U.S. industrial base.

d. Forward-Deployed Forces

Because American values and interests are shared by many nations that literally span the entire globe, and because of our insular geographic position, we cannot adequately defend those interests with U.S.-based forces only. Therefore, the United States maintains ground and air forces in Europe, Japan, Korea, and the Philippines, plus naval carrier battle groups and Marine amphibious forces in the Atlantic, the Western Pacific, and the Indian Oceans, and the Mediterranean Sea.

We must also have the capability to augment and expand rapidly our forward-deployed units through reinforcement by U.S.-based Active and Reserve Component units. These forces will provide additional combat capability in the event of an extended confrontation.

e. Flexibility

To a marked extent, U.S. forward deployments and our contingency plans for U.S. forces represent our judgment about the seriousness and likelihood of aggression against our interests. Yet we know we can never be certain about the location, time, and nature of future aggression against our interests. Therefore, our forces, our plans, and our way of thinking must be flexible to enable us to respond to unexpected contingencies.

Our flexibility increases the importance of strategic mobility -- our ability to deploy and sustain our forces over great distances. New Soviet outposts in many regions of the world make it possible for

Moscow to threaten friendly nations, directly and through surrogates, in places where we have no shield of land-based forward deployments. The spread of these military outposts is made more serious by the expansion of Soviet capabilities for projecting power, particularly in regions close to the Soviet Union.

D . PILLARS OF U.S. DEFENSE POLICY

There are four pillars of our defense policy that guide us in our efforts to achieve a more robust and stable deterrence for the 1990s and beyond. The sections on nuclear and nonnuclear deterrence below supplement the strategy overview of the preceding chapter. The sections on arms reductions and competitive strategies introduce important concepts for ensuring our security, especially over the long term.

1. Nuclear Deterrence and the Strategic Defense Initiative

While the threat of nuclear retaliation has long played an important role in American post-war strategy, so have efforts to defend against nuclear attack -- except for some 15 years between the late 1960s and 1983. In 1960, the DoD spent as much on active defenses against Soviet strategic bombers as on our own offensive nuclear forces. But ten years later, this balance was tilted completely in favor of offensive forces. The idea that the United States should remain defenseless against any nuclear attack gained ground because of the growth in Soviet missile forces and the difficulties, with technologies of the 1960s and 1970s, of defending against missile attack. Although there had been earlier concern over Soviet ABM developments, it was not until 1983 that our effort on strategic defense began to reassume a high priority. At that time President Reagan launched the Strategic Defense Initiative (SDI), a research program to determine the feasibility of deploying a thoroughly reliable defense against nuclear ballistic missiles for the United States and our allies.

The rationale for strategic defense is really quite simple: the United States and its allies would be far better off if we could destroy incoming nuclear missiles rather than destroying people. An effective strategic defense would help deter attacks against us and, if it is as effective as we hope, virtually eliminate the terrible damage that would occur if deterrence fails, or in the case of an accidental launch.

President Reagan's SDI vision seeks to move all mankind away from our unsettling state of total vulnerability. Some critics of the SDI have condemned the program as abandoning deterrence in favor of defense. Yet, even the Soviets understand that it is wrong to posit a choice between defense and deterrence. In their professional military writings, the Soviets reject the distinction between deterrence on the one hand and military capabilities -- offensive and defensive -- on the other. Defense also deters.

The SDI program signals not the abandonment of deterrence, but a desire to fortify it in a way that would actually reduce the risks of war -- a way that can win support from democratic publics who crave a nonoffensive, nonnuclear way of helping maintain the peace.

The deterrent value of a strategic defense derives from the effect it would have on Soviet calculations of the costs and benefits of launching an attack. This type of defense would enable us to influence the calculus by reducing an attacker's military benefits, rather than by increasing his costs through retaliation. A strategic defense need not be "leak-proof" to achieve this objective. Furthermore, such a defense would protect us should deterrence fail or in case of an accidental attack.

Soviet offensive and defensive force developments pose a serious challenge to the United States. If left unchecked and unanswered, they will undermine our ability to retaliate effectively in case of Soviet attack. The situation will be even more dangerous if the Soviet Union obtains a monopoly on advanced defenses against ballistic missiles. In that case, the Soviets might come to believe that they could launch a nuclear attack against the United States or our allies without fear of effective retaliation. At the very least, they might see a realistic chance of successful nuclear blackmail.

The case for a strong U.S. defense against missiles becomes more stronger still in conjunction with President Reagan's recent offer to General Secretary Gorbachev at Reykjavik for the mutual elimination of all offensive nuclear ballistic missiles. The United States' offer destroys the Soviet Union's argument that we, through the SDI, aim to achieve a first-strike capability by depriving the Soviet Union of its retaliatory deterrent. If, as the President proposes, both sides eliminate all offensive ballistic missiles, the SDI could not affect any Soviet second-strike deterrent.

Moreover, whatever one's views on the feasibility of U.S. strategic defense, the prospects for its effectiveness obviously would brighten greatly if the nearly ten thousand Soviet strategic missile warheads were reduced dramatically. Yet many who say that the SDI should be killed because it cannot work, also argue that if the opportunity exists to reduce offensive arms (making the strategic defense mission much easier), then we should agree to kill the SDI in order to realize that opportunity.

Regrettably, the SDI's opponents apparently fail to recognize the critical function and role of missile defense in securing major reductions in U.S. and Soviet missile forces, and the problem of safeguarding such reductions if the United States abandoned the SDI. With the Soviets' long record of treaty violations, SDI offers one of the few ways to keep the Soviets honest, if they ever should agree to deep reductions in arms. For that as well as for a myriad of other reasons, we should never give up SDI.

This is why the concept of the SDI as a "bargaining chip" has no merit. The SDI creates opportunities for bargaining because it lowers the value of the offensive arms we want the Soviets to reduce. And it provides insurance against cheating if we agree to rely on mutual reductions. We lose both of these critical benefits if we trade the SDI itself away.

But most important of all is that it would be a far better world for all if nuclear missiles could be destroyed as they left their silos.

In sum, the SDI seeks to move us toward a safer world: one with reduced levels of arms and deterrence based on defending against an attack, rather than retaliating after an attack. We will continue to try to convince the Soviet Union to join us in working out a stable transition toward this sane and achievable goal. We will never give it up.

Neither the promise of strategic defense nor the prospects for deep arms reductions obviate the need to keep our nuclear deterrent and our conventional forces strong and ready. For the foreseeable future, we must maintain a modern and credible nuclear deterrent -- a requirement that mandates not only adequate forces and effective plans for their use, but also effective command, control, communications, and intelligence (C³I), and reliable, safe warheads, and we will always need strong, ready conventional forces.

In structuring our nuclear deterrent, we recognize evidence of Moscow's efforts to build a nuclear warfighting machine, reflecting a Soviet belief that nuclear war may, under certain conditions, be fought and won.

We may not agree with the assumptions upon which the Soviet strategy is founded, but we must design a deterrent strategy that takes these factors into account if we are to remove any temptation for the Soviets to think they can fight and win a nuclear war. Failing to respond vigorously to this threat simply because we do not believe in such concepts is to misapply the entire notion of deterrence.

When this Administration took office in 1981, President Reagan initiated a sweeping program to modernize each of the three elements of our aging nuclear Triad and, just as important, the command, control, and communications (C³) systems that support them. Five years later, I am pleased to report that our efforts are paying handsome dividends in terms of greatly increased deterrent capability.

The military effectiveness of our deterrent against the full range of Soviet targets -- including those hardened to reduce the effects of a potential U.S. response -- has been strengthened considerably within the past year by the addition of the first squadron of B-1B aircraft, along with our first ten Peacekeeper missiles. Furthermore, the Trident II submarine-launched ballistic missile, whose survivable hard-target-kill capability is so vital to flexible response, will soon begin flight testing, marking another milestone on the path to its deployment in December 1989. The past year also saw further successful development work on the advanced cruise missile and advanced technology bomber; both programs continue on track toward deployment, and both will add very substantially to our deterrent capabilities.

In addition to making hardware improvements, we have devoted a great deal of thought and effort to the development of more selective, discriminating, and controlled responses to the wide and varied nature of potential Soviet acts of aggression. This flexibility -- which follows directly from the requirements of flexible response as initially set forth in the early 1960s -- increases our ability to deter both nuclear and nonnuclear attacks against us or our allies.

Now and until we deploy an effective SDI, the security of the United States and our interests depends on nuclear deterrence and our maintaining the nuclear umbrella over our allies -- something we are doing and are prepared to continue. Meanwhile, we are investigating

technologies under the SDI that could one day make us less dependent on offensive nuclear arms to deter Soviet aggression. But, clearly, as long as we remain dependent on nuclear weapons for our security, we must continue to test them for safety and reliability, and to ensure the credibility, effectiveness, and survivability of our deterrent. We test neither more frequently nor at levels higher than absolutely necessary to meet our security requirements. At the same time, we must retain the flexibility to adjust our testing to respond to changes in the Soviet threat. Certainly we should not be beguiled by Soviet offers to give up the necessary testing we must do -- especially in view of past Soviet cheating on so many other agreements.

2. Conventional Deterrence and Low-Intensity Conflict

a. Conventional Deterrence

U.S. strategy emphasizes the role of conventional forces. This emphasis is in preference to reliance on nuclear weapons, whose deterrent value eroded as the Soviet Union matched or exceeded U.S. capabilities in key areas of our nuclear posture. A robust conventional posture provides us with the safest, most reassuring deterrent at the lowest feasible risk of nuclear war, indeed of any major war.

America's conventional forces are structured and deployed primarily to counter our most serious global threat: Soviet military power. However, they also must be designed to operate with our special operations forces to counter less ominous threats at the lower end of the conflict spectrum, and when our national interests overwhelmingly require us to commit our troops to combat.

b. Low-Intensity Conflict

Today, the United States confronts several forms of ambiguous aggression in what is popularly referred to as Low-Intensity Conflict (LIC). While terrorism, subversion, and insurgency are as ancient as conflict itself, the growing intensity with which they are pursued by our adversaries in the post-World War II era requires a commensurate increase in the attention we devote to them. Indeed, these forms of ambiguous aggression have become so widespread that they have become the "warfare of choice" over the last 40 years. They represent a long-term challenge to our security, a permanent aspect of the "long twilight struggle" between democracy and its enemies.

In a sense, we face a dual threat. First, there are the political, social, and economic instabilities endemic to many Third World nations that make them ripe for exploitation by radical or disenfranchised internal elements. Often these elements foment hostility focused on the so-called "neocolonialist" West, particularly the United States. Secondly, the Soviet Union is eager to exploit this instability directly or through its proxies, to promote terrorism, subversion (as in Grenada, Ethiopia, Afghanistan in 1978, and South Yemen) and insurgency, thereby undermining U.S. security interests through this "indirect approach."

The problems of decolonization and nation building associated with the emergence of Third World states from colonial rule has led in many cases to political, social, and economic instabilities that threaten the survival of legitimate governments, and compromise U.S. security interests. These conditions also exist in older independent nations of the Third World. Generally, these instabilities, combined with popular dissatisfaction and the target government's inability to respond effectively, lay the groundwork for exploitation by internal elements who seek to effect through violence what they cannot change through peaceful, orderly means. Frequently in these instances we find the Soviet Union and its surrogates capitalizing on a nation's misfortunes by supporting these insurgents in their attempts to overthrow the existing order. When they have succeeded, as we have seen, the result is the imposition of a far more odious form of government, as occurred in Vietnam, Cuba, and Nicaragua.

In other examples, insurgencies secure support by promising freedom from repression, and then impose far more repressive governments than any the world has seen since the Middle Ages. Iran is the prime example in this category, and the lesson for the United States is that we should be reluctant indeed to join an apparently popular revolution against a government friendly to the United States, as was the Shah's government in Iran, and only after asking ourselves whether the people involved actually will benefit by any change in rulers. In the Philippines, we satisfied this test and the results now more than justify our actions.

Our response to all these challenges generally has been, and should be, to assist friendly governments threatened by externally supported insurgents in alleviating those legitimate grievances levied against them. At the same time, we are helping the host country regime combat those insurgent groups whose aim is not reasoned reform, but rather the seizing of power to impose their own agenda by force. Since the root problems of insurgency are primarily political, social, and economic, assisting the host country combat the military threat is but one element in a comprehensive strategy that must address the conflict's multiple dimensions.

This approach requires a long-term effort on our part. Insurgencies are typically protracted conflicts, and therefore our strategy must be designed for the long haul. It is not so much our objective to help these nations win battles against insurgent military forces as it is to assist their military in buying the time necessary for needed reforms to take root and flourish under governments friendly to the United States. Unless the host government succeeds in eliminating the underlying causes of insurgency, any military successes won in the field will prove fleeting.

Our specific role is to work with the other appropriate U.S. government agencies and host country organizations, as necessary, to integrate our effort into a comprehensive strategy to combat the insurgency when that is indicated, and, where possible, identify at an early stage those conditions that foster insurgency.

In discussing the proper "Uses of Military Power" in last year's Annual Report and in earlier speeches, I noted that the United States should not treat lightly the prospect of employing American combat forces. From the point of view of one who bears a large part of the responsibility for the lives of American troops, I do not believe the country is ill-served by the requirement that, before we commit military personnel, our national interests be so heavily involved that the only way left to serve those interests is by the commitment

to combat of our troops. This caution is especially relevant when contemplating their use to assist regimes threatened by insurgency.

Of course, we oppose those who seek to impose totalitarianism in the Third World, but we must recognize that there are many who fight to restore the liberty and independence they have lost to communist aggression. These peoples, be they from Afghanistan, Angola, Nicaragua, Cambodia, or other countries suffering the effects of totalitarian oppression, deserve our support. We are prepared to support those who fight for freedom, not only because it is morally right, but because it is one of the best ways to safeguard the security of the world's democracies.

While insurgency involves protracted warfare to achieve its ultimate goal of toppling a government, subversion involves actions taken by an external power to recruit and assist indigenous political and military forces to overthrow their government through a coup d'etat. The Soviet Union has utilized subversion as a means of ambiguous aggression since Lenin's time. Some of their more recent successes include Ethiopia and Afghanistan. Had we not responded promptly and forcefully, Grenada would have been added to the list. This form of low-intensity aggression is not limited to the Soviet Union; it has also been embraced by others, among them Qaddafi's Libya and Castro's Cuba, in attempting to advance their aims.

The key to combatting this subtle form of aggression, which manifests itself in open conflict only at the last possible moment, is the quality and reliability of a nation's indigenous military forces, along with its legitimate political institutions. A cornerstone of our strategy to combat subversion concerns our efforts to enhance the capabilities of friendly nation military forces, and to assist them in effecting those reforms that augment their professionalism and emphasize the importance of an apolitical military leadership supportive of free institutions. Although we seek to counter subversion through the methods noted above, the United States has, in the past, responded effectively with force to blunt this kind of aggression in Lebanon (1958), the Dominican Republic (1965), and Grenada (1983), and retains the capability and the will to do so again should it be deemed necessary. Surely, no one can contend that it is to our advantage to allow communist-supported subversion to convert a friendly government into a communist enemy, and particularly not in our own hemisphere.

It is also safe to say that nothing has so outraged the world's civilized peoples in recent years as the senseless acts of violence carried out by terrorist groups representing radical political and religious views. In its domestic form, terrorism is properly the province of the police forces of a nation.

When terrorism is sponsored by the leaders of sovereign states as a tool of aggression, however, it moves beyond the realm of an internal police matter to a higher level -- that of international conflict involving state-to-state confrontation. Here the situation differs from individual acts of terrorism, as we saw this past April when we identified Libya as clearly responsible for an act of terrorism against our military personnel in West Berlin. The military operations executed by U.S. forces in response to this act of aggression were conventional in nature. They were carried out with exceptional skill, daring, and effectiveness, in the best traditions of all our forces. The action demonstrated many things, one being that we are ready, on very short notice, for very difficult actions involving the solution of particularly complex logistical problems. It also involves the closest coordination at the interdepartmental level and

with our allies. The objective of the Libyan operation was both to strike at terrorist support bases, and to teach the state of Libya that providing terrorist groups with the support necessary to conduct their international campaign of aggression against the United States carries with it a terrible cost.

3. Reducing and Controlling Arms: A New Realism

The United States seeks to negotiate arms reduction agreements with the Soviet Union that will enhance deterrence and stability at lower force levels. The Reagan Administration's approach to arms control is a direct result of the failures of the SALT process. During the 1970s, the substitution of unwarranted optimism for responsible analysis resulted in the negotiation of two agreements that were arms control in name only.

From our first arms control proposal in November 1981 to the present, this Administration has insisted that arms control agreements involve real reductions of a substantial nature. We have also insisted that the reductions lead to increased strategic stability. Our immediate goal has been, and continues to be, significant reductions in those nuclear systems most suitable for a first strike -- ballistic missiles -- in particular, large, multiple-warhead, land-based intercontinental ballistic missiles. We have also proposed the elimination of the entire inventory of U.S. and Soviet longer-range intermediate-range nuclear forces (LRINF). Moreover, we have proposed the ultimate elimination of all offensive ballistic missiles.

We have been criticized for not signing any agreement with the Soviets. We have no doubt whatever that it is far better to wait patiently for real reductions rather than to seek easy political acclaim by signing arms agreements that permit more increases.

Our persistence has paid off. In 1981, the Reagan Administration adopted a strategic modernization program that gave the United States back its deterrent capability as well as negotiating leverage. We did not attempt to use alleged arms control as a substitute for a defense strategy, nor did we use arms control negotiations as an excuse for allowing our deterrent capability to erode. Then, in 1983, we announced the Strategic Defense Initiative (SDI), which also was instrumental in bringing the Soviets back to the bargaining table they had said they would not rejoin.

The Reagan Administration has recognized that we must be able to verify complete Soviet treaty compliance to detect both Soviet cheating and use of ambiguities that, in the past, have allowed Moscow to use the "arms control process" for its own ends. The importance of effective verification is crucial, given the Soviets' record of noncompliance with existing arms control agreements.

The clear pattern of Soviet noncompliance with the legal obligations and political commitments of their arms control agreements signals an intent to achieve strategic superiority. Moreover, Soviet noncompliance, as the President has stated, "has raised fundamental doubts about the integrity of the arms control process itself. A country simply cannot be serious about effective arms control unless it is equally serious about compliance."

On May 27, 1986, President Reagan made an important decision on arms control and strategic policy. Because of Moscow's continuing

arms control violations and refusal to reciprocate our restraint, the President announced that the United States will henceforth base our decisions regarding our strategic offensive force structure on the nature and magnitude of the threat posed by Soviet strategic forces, and not on the flawed standards contained in the SALT II agreement of 1979 or the SALT I Interim Agreement of 1972. In addition, the President committed the United States to a policy of restraint consistent with protecting strategic deterrence. The President said that, assuming no significant change occurs in the threat, we would not deploy more strategic nuclear vehicles or ballistic missile warheads than does the Soviet Union.

Critics of this decision fail to recognize that the President has no prudent alternative to putting our policies toward Moscow on a more realistic footing. In addition, critics fail to acknowledge that the Soviets have had ample opportunity to redress the situation. Since 1983, we have repeatedly made clear to Moscow our grave concerns regarding Soviet noncompliance.

In his May 1986 announcement, the President reaffirmed our commitment to strive for an agreement on deep and equitable reductions in offensive nuclear arms provided that we can be confident of Soviet compliance with it. The United States has not given up on the arms control process. We have only become more realistic in our approach to negotiating with Moscow, and we have made it clear we want arms reductions, not more agreements that allow enormous Soviet expansion.

In the October meeting at Reykjavik between the President and Soviet General Secretary Gorbachev, further progress was made in the preliminary discussions on both START and INF (intermediate-range nuclear forces).

However, on the second day at Reykjavik, the Soviets made it clear they would not agree to anything unless we give up SDI. In short, the Soviets are still trying to hold progress in all areas of arms control hostage to acceptance of their proposals on the SDI. Although the President demonstrated flexibility regarding the timing of any strategic defensive systems' deployment, the Soviets learned that he will not forsake U.S. national security by crippling the SDI in pursuit of an arms agreement. The SDI is a key element of the U.S. approach to a more secure world. It remains essential even with an agreement on reductions and the ultimate elimination of ballistic missiles.

Although further work is required to reconcile fundamental U.S./USSR differences, the Iceland discussions created very important opportunities for more productive arms control negotiations. Any successful negotiations, however, will be founded on the three elements discussed below.

First and foremost, we must maintain a strong deterrent posture to guarantee a stable future, while providing the Soviets with incentives to reduce their nuclear arsenal and ensuring that violations of their solemn treaty agreements will entail real costs.

Second, we must be able to verify Soviet treaty compliance without the ambiguities that have allowed Moscow to exploit the arms control process in the past.

Finally, in making decisions affecting U.S. national security, we must not assume that the Soviet Union will faithfully comply with its treaty obligations. Nor can we allow any future arms control

agreement to be a substitute for the maintenance of a strong U.S. defense posture.

4. Competitive Strategies for Long-Term Security

In last year's report I discussed competitive strategies and my intention to make them a major DoD theme for the remainder of this Administration. The central idea of competitive strategies is simple enough: aligning enduring American strengths against enduring Soviet weaknesses. Even within their strengths we should seek weaknesses -- chinks in their armor -- that we can exploit, thereby rendering Soviet military power less potent over time.

By adopting competitive strategies we force the Soviets to perform less efficiently or effectively. Our competitive strategies thereby enhance deterrence by making significant components of the Soviet force structure or their operational plans obsolete. This forces them to make difficult choices. Those choices might include shifting more resources to defensive systems and operations, rather than continuing to structure forces for offensive operations; or they might decide to forego certain offensive forces because of their inability to overcome our defensive posture.

Our current program includes a number of outstanding examples of competitive strategies, such as the SDI, our penetrating bomber force, antisubmarine warfare, and the AirLand Battle doctrine.

As productive as these competitive strategies appear, we must continue to adopt the competitive strategy approach in our weapons development, in our operational planning, and in our military doctrine. This is really the only way we can overcome Soviet numerical advantages and deal with the other military advantages their political system gives them.

It is relatively easy to apply the concept of competitive strategies in developing new technologies. To achieve the maximum leverage from these technologies, however, we must also develop operational concepts. Indeed, in many instances, we should be able to gain an advantage by developing a new concept of operations that employs existing systems.

An even more formidable challenge is institutionalizing this approach. We have developed competitive strategies conceptually and are working at identifying an initial set of those strategies. But we must also ensure that we set in motion a lasting effort to include these strategies in our defense strategy and policy formulation over the long term.

I have directed the Deputy Secretary to oversee the institutionalization of competitive strategies throughout the Defense Department and to assume responsibility for the daily progress of the programs involved. Because of their importance, I will chair regular reviews of Service progress in implementing these programs.

Finally, we will not be able to do any of this without the continued support of the Congress. Throughout the last six years, key members of the Senate and the House have reviewed our most sensitive programs. These members have helped us nurture these very special systems at each step along the way. Applying the concept of competitive strategies has been supported in the Congress by deed as

well as by word. Working together, we can help the United States and our allies develop and field a truly robust deterrent that relies on advanced design, manufacture, and fighting doctrine, rather than on matching the Soviets tank for tank, ship for ship, or aircraft for aircraft.

E. THE DEFENSE BUDGET

1. Two-Year Budgeting

This year, at the direction of the Congress, and with my strong support, we are submitting a two-year budget request. Section 1405 of the FY 1986 DoD Authorization Act (P.L. 99-145) requires submission of a two-year budget for the Department of Defense and related agencies for FY 1988 and FY 1989, a change for which we strongly argued. We have in the past submitted estimates for the budget year and the subsequent fiscal year. This budget, however, is the first to request formal authorization and appropriations for all DoD programs and activities for two distinct years.

This shift to a biennial budget for national defense has very positive implications for budget review and execution. A two-year budget permits greater stability in providing resources for defense efforts, provides for a more effective ordering and production of military equipment, and enhances program planning and execution. It will provide more stability at the operational level where installation and activity commanders and program managers turn budget decisions into action. It will also allow more time to evaluate the results of current and prior-year execution of the defense budget. A biennial budget will free program managers to spend more time and effort ensuring that funds are spent effectively and efficiently.

2. Components of the FY 1988/FY 1989 DoD Budget

a. Overview

The President's defense budget, shown in Table 1, proposes budget authority (BA) of \$303.3 billion for FY 1988, an increase of \$21.6 billion over FY 1987, and \$323.3 billion for FY 1989.

Table 1
Department of Defense Budget
(Dollars in Billions)

Current-Year Dollars	FY 1986	FY 1987	FY 1988	FY 1989
Total Obligational Authority (TOA) ^a	280.5	282.9	304.1	324.1
Budget Authority (BA) ^b	281.4	281.7	303.3	323.3
Outlays ^c	265.6	274.2	289.3	303.7
FY 1988 Dollars				
Total Obligational Authority (TOA) ^a	301.1	295.6	304.1	313.1
Budget Authority (BA) ^b	302.1	294.4	303.3	312.4
Outlays ^c	285.1	286.9	289.3	292.9

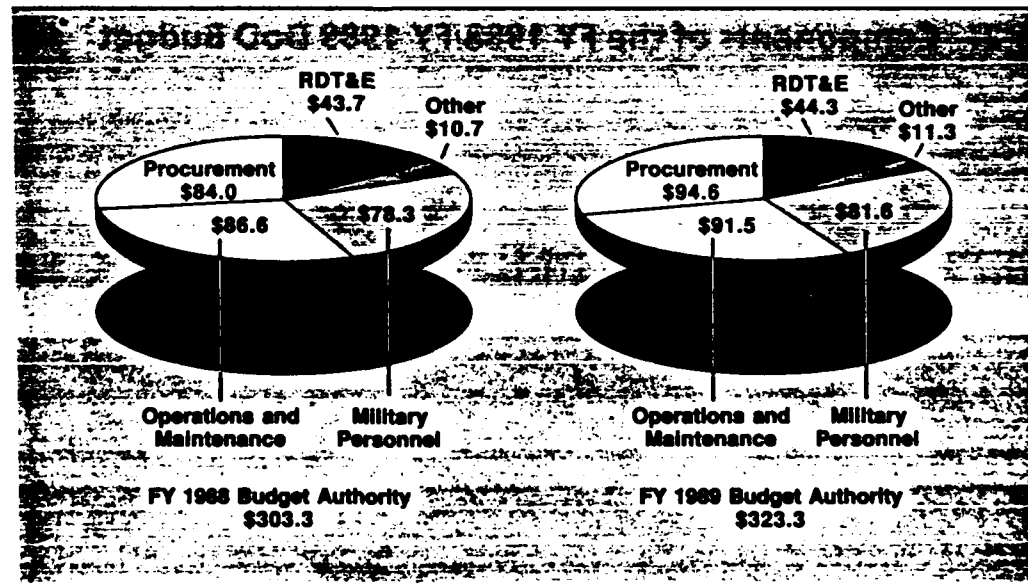
^a **Total Obligational Authority (TOA)** represents the value of direct defense program for each fiscal year, regardless of financing.

^b **Budget Authority (BA)** permits the obligation of funds for immediate and future disbursement and is associated with the year the authority takes effect. Generally the difference between TOA and BA stems from the application of receipts that offset total budget authority.

^c **Outlays** represent actual expenditures. Less than 60 percent of FY 1988 outlays will result from FY 1988 budget authority; the remainder will come from budget authority provided in earlier years.

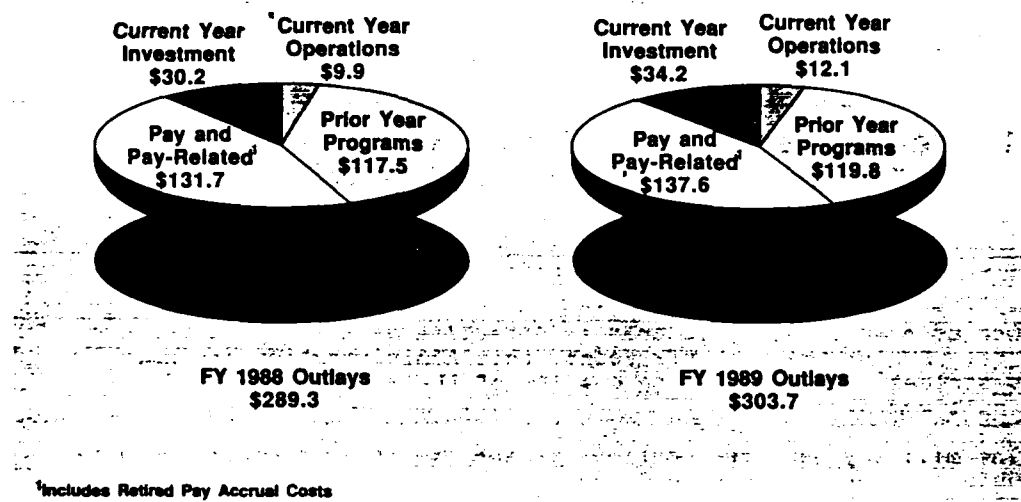
The distribution of FY 1988 and FY 1989 budget authority by major appropriation title is shown in Chart 9. Military Personnel and Operations and Maintenance (O&M) represent about 54 percent of the DoD budget authority. These appropriations include payments to military and civilian personnel and the accrued retirement cost of the

Chart 9
Department of Defense Budget Authority
(Dollars in Billions)



current military force; allocations for maintenance and repair of equipment and for utilities; medical costs; training; petroleum, oil, and lubricants; and spare parts. The remainder of the budget contains funds for investment in research and development (R&D), procurement of weapon systems, and military construction and family housing.

Chart 10
Department of Defense Outlays
(Dollars in Billions)



Outlays in FY 1988 and FY 1989 are shown in Chart 10. Only 10.4 percent will be spent on new investment programs in FY 1988 and 11.3 percent in FY 1989.

3. Conclusion

The President's FY 1988-92 defense program (Table 2) is based on solid and consistent planning for national security resources in the face of increasing risks and continuing fiscal constraints. It is important that we keep defense funding on an even keel, rather than allowing it to experience periods of peaks and troughs that historically have plagued our military investments. We cannot continue to experience negative growth in funding levels as we have for the past two years without placing at risk the military improvements accomplished with prior year investments. Therefore, we must take the steps necessary to insure the stability of the defense program. This includes implementation of two-year budgeting and enacting sustained, consistent budgets sufficient to maintain the defense rebuilding effort now under way. If we are able to restore the commitment to annual modest, but essential, levels of growth in defense resources, we will find these resources better utilized and our forces better equipped and supported to meet the current and future challenges to our security.

Table 2
FY 1987 Department of Defense Budget
Long-Range Forecasts (Dollars in Billions)

	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992
Budget Authority					
Total, Current Dollars	303.3	323.3	343.9	364.9	386.5
Total, Constant (FY 1988) Dollars	303.3	312.4	321.7	331.1	340.9

F. U.S. MILITARY CAPABILITIES: PROGRESS AND PROGRAMS

1. Defense Progress and Programs

a. People

Our defense strategy is only as effective as the people who execute it. During the past six years, this Administration has made great strides in improving the quality of the men and women of America's armed forces.

The military Services continue to achieve their overall recruiting objectives in the Active Components, while also maintaining excellent quality in new recruits and retaining our best people for longer careers. Some 95 percent of our new recruits scored average or above on the Armed Forces Qualification Test, compared to 65 percent in FY 1980. The rate of first-term reenlistments is 48 percent, up from 39 percent in FY 1980.

Careful allocation of our Active Component military people to requirements that are inherently military has helped us make the most of scarce manpower resources. We have also made significant improvements in our reserve manpower, in both quantity and quality. Moreover, civilians are playing a vital role in our support structure; and without the encumbrances of congressionally imposed numerical ceilings, we have improved our efficiency in utilizing civilian manpower.

Our goals for the future are to maintain our recent successes and improve the leadership and management of our manpower. We can sustain programmed end strength and skill levels by providing pay increases comparable with those in the civilian sector, prudent management of bonuses, sufficient recruiting resources, and imaginative productivity improvements. We are working to establish alternative personnel systems for our civilians to enhance the quality of our scientific, engineering, and acquisition work force through an improved accession and retention policy.

The quality and morale of our voluntary military manpower is the best measure of our success. It is one of the Administration's achievements of which I am most proud. The worst "economy" I can

imagine would be to fail to appropriate the sums we need to keep our military strong, healthy, effective, and ready.

In sum, without congressional cooperation we will put at risk our greatest success of the past six years: maintaining and sustaining the high quality of the men and women in America's armed forces.

b. Land Forces

U.S. land forces, our Army and Marine Corps, contribute to deterrence and defense through their presence abroad and by our capability to deploy them from the continental United States (CONUS) to crisis areas worldwide. The increased capability of our land forces bolsters deterrence by helping to convince adversaries that they cannot capture and hold terrain whose loss would be counter to American interests. Our force objective is to attain a fully modernized, sustainable, deployable, and ready 28-division Army, and a four-division ground combat element Marine Corps.

Procuring new systems in adequate numbers to modernize our active and reserve land forces, at the same time that we are developing new ones, is an expensive but necessary undertaking. A rapidly modernizing threat and our own limited resources dictate a prudent and well-balanced approach toward our own modernization.

The M1A1 tank, M2/3 Bradley Fighting Vehicle, and AH-64 Apache antitank helicopter are examples of mature and modern systems that are now entering the Army in significant numbers. At the same time, the Army is continuing research on a future family of armored vehicles, improved air defense systems, antiarmor missiles, helicopters, and command, control, communications, and intelligence systems. The Forward Area Air Defense (FAAD) initiative and Light-Helicopter Family (LHX) are examples of systems at the forefront of research and development that are needed for the future battlefield.

The Marine Corps also has modernized in the face of the worldwide proliferation of modern weapons. It has enhanced its tactical mobility with the light-armored vehicle and the assault amphibian vehicle improvement program. It has fielded the CH-53E Super Stallion to provide heavy tactical lift and is upgrading the AH-1T attack helicopter fleet to the more capable AH-1W Super Cobra. The MV-22 Osprey, currently under development, holds promise as an advanced tilt-rotor aircraft to perform assault transport missions at much greater speed and range than current helicopters.

c. Naval Forces

Over the past six years, impressive progress has been made in restoring the maritime strength required to maintain our global defense responsibilities. Since 1980, the fleet has grown from 479 to 555 deployable battle force ships. If our program is fully funded, the Navy will achieve its goal of 600 ships by the end of the FY 1988/FY 1989 budget period.

We have especially improved our power-projection forces. Our 14th deployable aircraft carrier, the USS THEODORE ROOSEVELT, has joined the fleet, to be followed by the 15th carrier at the end of

the decade. Three reactivated battleships have already augmented our carrier force. A fourth will join the fleet in FY 1989. Large numbers of Harpoon cruise missiles have been deployed, and we are introducing new Tomahawk missiles aboard our surface ships and submarines, giving our forces a vastly improved capability to strike targets at sea and on land over long distances. To modernize and expand our amphibious forces, we have begun construction of three new types of assault ships and procurement of air-cushioned landing craft able to project Marine landing forces and their equipment from ship to shore from over the horizon.

Our antiair warfare capabilities have also grown considerably. Six CG-47 AEGIS cruisers have now joined the fleet. Our five-year program provides the fleet with more AEGIS-equipped ships through continued procurement of CG-47 cruisers and DDG-51 destroyers.

Our antisubmarine warfare forces have grown in number and extended their effective range. The attack submarine force has been modernized through the addition of SSN-688 submarines, up from 10 in 1980 to 36 today. The number of nuclear-powered attack submarines has grown from 73 in 1980 to almost 100 today. To maintain our qualitative superiority into the next century, we are developing a new attack submarine, the SSN-21.

The major elements of our naval expansion program are now in place or will soon reach fruition. The task is to sustain our recent gains.

d. Tactical Air Forces

Over the last six years, we have greatly improved our tactical aviation capabilities. With continued fielding of F-15, F-16, and F/A-18 aircraft, we are well on the way to replacing completely our less capable F-4s. In the vital area of tactical command, control, and communications (C³), we have several ongoing programs, such as the Joint Tactical Information Distribution System (JTIDS). Sophisticated tactical weapons like the IIR Maverick are now in full production, and revolutionary missiles like the AIM-120A (AMRAAM) are currently being tested. These modernization programs have enabled us to increase the quality of equipment in our tactical aviation forces relative to that of our principal adversary.

We continue to exploit our technological advantages by adding to our target acquisition, surveillance, and warning capabilities. Improvements are being made to our E-3 Airborne Warning and Control System (AWACS) aircraft, while at the same time we are developing more advanced systems such as the Joint Surveillance and Target Attack Radar System (JSTARS) to keep us technologically ahead in this vital area.

Improvements are also being made in the area of electronic warfare with specialized aircraft such as the F-4G, EA-6B, and EF-111 being updated. Our high-speed antiradiation missile (HARM) is also being improved to keep pace with the threat.

Our tactical aviation programs are well balanced and represent the minimum requirement for steady, efficient modernization of these forces. Cuts in our tactical aviation programs will degrade this balanced force, and increase our security risks, given the critical role of tactical aviation.

e. Nuclear Forces

Improvements to our nuclear forces since 1980 have increased their capability to survive a Soviet attack and to retaliate effectively and flexibly against the full array of Soviet targets, including hardened targets. Over the past six years we have:

- Deployed 10 of the 50 Peacekeeper ICBMs.
- Deployed seven new Trident ballistic missile-carrying submarines (SSBNs).
- Deployed one squadron of B-1B bombers (15 aircraft).
- Equipped 98 B-52G bombers to carry air-launched cruise missiles (ALCMs), and begun outfitting all 96 B-52H bombers to carry ALCMs (over 32 B-52H bombers have already been so modified).
- Deployed almost 100 nuclear-armed submarine-launched cruise missiles (SLCMs) aboard surface ships and attack submarines.
- Improved the accuracy of Minuteman ICBMs.
- Deployed all 108 Pershing II missiles and 208 of the 464 ground-launched cruise missiles planned for European bases.
- Deployed modernized bombs and artillery-fired atomic projectiles.

The impact modernization has made on our surviving strategic nuclear capability is significant. In FY 1986, primarily as a result of the deployment of C-4 missiles on Trident submarines, we have about 20 percent more weapons able to retaliate after a Soviet attack than in FY 1980. Over the same period, and resulting largely from the deployment of ALCMs on B-52s, we have achieved, since FY 1980, roughly a 120 percent increase in "hard-target-kill" capability that could survive a Soviet attack -- a capability we must have to hold at risk highly valued Soviet assets.

The payoff from the early investments in our strategic modernization program will be even greater in our FY 1988-92 program, highlights of which include our plans to:

- Complete the deployment of 100 B-1B bombers.
- Procure five more Trident SSBNs, all carrying the far more capable and effective Trident II (D-5) SLBMs.
- Complete deployment of the first 50 Peacekeeper ICBMs in Minuteman silos, and begin full-scale development of a new, more survivable basing mode for the second 50.
- Begin full-scale development of the Small ICBM.
- Continue work on the Advanced Technology Bomber.
- Continue development and initial deployment of replacement short-range attack missiles for our modernized bomber force.

f. Force Projection

Our national strategy of deterrence and forward defense requires that we be able to deploy our forces quickly and sustain them in combat, wherever our interests are threatened. To do this, we rely on a combination of prepositioning, airlift, and sealift programs.

In the last six years, we have:

- Increased our prepositioned unit equipment in Europe.
- Prepositioned Army equipment in SWA for opening ports, and sufficient equipment afloat in that region to support one Marine Amphibious Brigade.
- Prepositioned equipment afloat for two more Marine Amphibious Brigades for use in contingencies worldwide.
- Increased our airlift capabilities from 26.9 to 39.6 million-ton-miles per day (MTM/D).
- Increased our Military Sealift Command (MSC) active fleet from 44 to 57 ships, our Ready Reserve Force (RRF) from 27 to 82 ships.
- Structured and formed four Active and one Reserve Component light infantry divisions to enhance the Army's capability to deploy rapidly.
- Begun procurement of equipment that will permit conversion of commercial containerships to carry military equipment following mobilization.

These initiatives have brought us to 60 percent of our 66 MTM/D airlift capability goal and to 85 percent of our one million ton first-voyage sealift capability goal. Our programs for the next five years, if carried to conclusion, will provide:

- An additional 8.9 MTM/D of airlift;
- A further increase of 38 ships in the RRF;
- Procurement of conversion sets for 25 containerships;
- Additional prepositioned equipment in Europe to support several reinforcing divisions.

g. Command, Control, Communications, and Intelligence (C³I)

Over the past several years, the ability of our C³I systems to support our forces has increased significantly through the deployment of key new systems such as: the Ground Wave Emergency Network (GWEN); the Extremely Low Frequency (ELF) communication system; Jam Resistant Secure Communications (JRSC) and other satellite communications terminals; and TR-1 aircraft equipped with the Advanced Synthetic Aperture Radar System (ASARS). Added to this is the procurement of Mobile Subscriber Equipment (MSE), using a cost-savings, nondevelopment acquisition strategy. Furthermore, we are pursuing a

comprehensive modernization of systems that warn of, and assess, the characteristics of an attack by ballistic missiles, bombers, and cruise missiles. Similar initiatives are also modernizing tactical intelligence activities across the Services and in support of our commanders in chief (CINCs).

Major C³I improvements will continue as recent research and development (R&D) efforts begin to pay off with the fielding of more secure equipment and systems. Of particular importance are: the Navstar Global Positioning System (GPS), with its revolutionary navigation and position-fixing capabilities; additional Defense Satellite Communications System (DSCS) III satellites; the Milstar satellite communication system; and the Worldwide Military Command and Control System Information System (WIS).

In view of their crucial role, current and future C³I systems must have the connectivity, survivability, security, and interoperability necessary for effective joint military operations. Our FY 1988-92 C³I program is carefully designed to achieve these objectives.

h. Reserve Forces

During this Administration, Reserve Components have become increasingly important under the Total Force Policy. Since 1980, we have upgraded significantly the combat capabilities of the Reserve Components of all four Services. Selected Reserve strength has increased by 30 percent, and the Individual Ready Reserve (IRR) by 25.9 percent.

Following the "first to fight, first to be equipped" policy, early deploying Army National Guard and Reserve units are receiving modern weapons systems before later deploying active-duty units. Modernization of our Naval Reserve Surface Force continues. By the early 1990s, more than 50 ships of the emerging 600-ship Navy will be in the Naval Reserve. Modernization of Naval Reserve aviation continues with the transfer of F-14 fighters to Reserve Carrier Air Wings. In addition, the Squadron Augmentation Unit concept has been successful in enhancing the training of Naval Reserve augmentation crews in the same A-6, F-14, P-3C, SH-3H, S-3, and E-2C aircraft employed by their gaining squadrons. The Marine Corps Reserve has made great progress in both its ground and aviation modernization programs. This effort will continue in FY 1988, as the Marine Corps Reserve activates an additional AH-1J (Cobra) Attack Helicopter Squadron and a new KC-130 Refueling Squadron. The combat capability of our Air National Guard and Air Force Reserve units continues to improve with the transfer of F-16, F-15, and the more capable "E" model F-4 replacing older F-4C/D fighters. As part of our modernization efforts, we are equipping our fighters with advanced avionics and weapons systems. Reserve airlift forces are also being modernized with the transfer of C-141 and C-5 aircraft, and the procurement of new C-130 aircraft. Additional C-5 aircraft may be transferred to the Reserve Components during FY 1988 through FY 1992.

i. Special Operations Forces

Fully capable Special Operations Forces (SOF) are essential to our national security both in peacetime and at all levels of conflict. In 1981, we undertook a long overdue revitalization of these forces, with the objective of completing the process before FY 1991. We now have a solid six-year record of achievement, and remain committed to our objective.

Our FY 1988/FY 1989 budget request is essential to this revitalization effort, while the FY 1988-92 program completes the development of forces needed today, and provides for their evolution into our force of the future. The focus of our SOF programs is as follows:

- **Army:** Activation of a fifth Special Forces Group, a second aviation battalion, and the Special Operations Command's first communications and support battalions.
- **Navy:** Activation of an additional SEAL team to meet the goal of three teams per fleet as well as a Naval Special Warfare Unit in the Mediterranean.
- **Air Force:** Our program corrects major special operations airlift shortfalls by procuring or modernizing aircraft needed to support contingency and wartime SOF taskings. This includes procuring additional MC-130 Combat Talon II aircraft and MH-53 Pave Low helicopters to support infiltration, exfiltration, and resupply missions; AC-130 Spectre gunships to provide precise, day/night, adverse weather fire support; and navigation and avionics upgrades for the AC-130H and MC-130E aircraft in the present inventory.

G. Program Highlights

Table 1
Department of Defense
Strategic Forces Highlights

	<u>FY 1980</u>	<u>FY 1984</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Strategic Offense						
Land-Based ICBMs^a						
Titan	52	32	7	—	—	—
Minuteman	1,000	1,000	998	973	954	950
Peacekeeper	—	—	2	27	48	50
Strategic Bombers (PAA)^b						
B-52D	75	—	—	—	—	—
B-52G/H	241	241	241	234	234	234
B-1B	—	—	18	58	90	90
Fleet Ballistic Launchers (SLBMs)^a						
Polaris	80	—	—	—	—	—
Poseidon (C-3 and C-4)	336	384	320	336	368	400
Trident	—	72	144	192	192	192
Strategic Defense Interceptors						
(PAA/Squadrons)^b						
Active	127/7	90/5	76/4	54/3	36/2	36/2
Air National Guard	165/10	162/10	198/11	195/11	216/12	216/12

^a Number on-line.

^b Primary Aircraft Authorized.

Table 2
Department of Defense
General Purpose Forces Highlights

	<u>FY 1980</u>	<u>FY 1984</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Land Forces						
Army Divisions:						
Active	18	18	18	18	18	18
Reserve	8	8	10	10	10	10
Marine Corps Divisions:						
Active	3	3	3	3	3	3
Reserve	1	1	1	1	1	1
Tactical Air Forces (PAA Squadrons)*						
Air Force Attack/Fighter						
Active	1,608/74	1,734/77	1,764/78	1,812/81	1,762/79	1,774/79
Reserve	758/36	852/43	876/43	900/44	894/43	888/43
Navy Attack/Fighter						
Active	696/60	616/63	758/65	752/67	758/67	758/67
Reserve	120/10	75/9	107/10	101/10	120/10	117/10
Marine Corps Attack/Fighter						
Active	339/25	258/24	333/25	331/25	346/25	351/26
Reserve	84/7	90/8	94/8	96/8	96/8	90/8
Naval Forces						
Strategic Forces Ships	48	41	45	43	43	44
Battle Forces Ships	384	425	437	445	450	463
Support Forces Ships	41	46	55	59	61	66
Reserve Forces Ships	6	12	18	22	28	32
Total Deployable Battle Forces	479	524	555	569	582	605
Other Reserve Forces Ships	44	24	21	21	20	16
Other Auxiliaries	8	9	7	5	5	5
Total Other Forces	52	33	28	26	25	21

* PAA—Primary Aircraft Authorized.

Table 3

**Department of Defense
Airlift and Sealift Forces Highlights**

	<u>FY 1980</u>	<u>FY 1984</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
Intertheater Airlift (PAA)*						
C-5A	70	70	66	66	66	66
C-5B	—	—	5	14	32	44
C-141	234	234	234	234	234	234
KC-10A	—	25	48	57	57	57
C-17	—	—	—	—	—	—
Intratheater Airlift (PAA)*						
Air Force						
C-130	482	520	504	559	521	513
C-123	64	—	—	—	—	—
C-7A	48	—	—	—	—	—
Navy and Marine Corps						
Tactical Support	97	85	88	88	92	92
Sealift Ships, Active						
Tankers	21	21	24	20	20	20
Cargo	23	30	40	41	41	41
Reserve*	26	106	122	135	144	151

*PAA = Primary Aircraft Authorized

* = Includes useful National Defense Reserve Fleet ships and the Ready Reserve Force

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